

FLORIDA POWER CORPORATION  
AUDIT OF AFFILIATE TRANSACTIONS - ASR 96-003-2-1  
OUTSIDE AUDITOR WORKPAPERS  
FOR THE YEAR ENDED 12/31/95

**CONFIDENTIAL**

961448-EI

E-7-1 (2)

MA

senior/sg

3/2/96

Electric Fuels Corporation  
FPSC Rate Case Results  
12/31/95

On September 13, 1993, the rate order # PSC-93-1331-FOF-EI was issued which dealt with Florida Power Corporation's motion to change the reimbursement structure of the gulf delivered coal. The results of the rate case are as follows as they relate to EFC operations:

EFC's cost plus 12% return on gulf delivered coal was amended to a "market rate" cost structure. The base price approved by the Commission was \$23 (adjusted each January 1) per ton which affected coal delivered from IMT or Dixie Fuels. This market price was subject to adjustment for "the cost of government impositions" (i.e. taxes).

The base price was created by EFC based upon five specific indices. These indices are the CPI-U, RCAF-U, PPI-All Commodities, AHE-Total Private, and PPI-#2 Diesel Fuel. The rates that these indices are utilized are confidential, however, 10% of the escalation/de-escalation amount is fixed per the Commission ruling.

The effect on EFC operations is to deregulate the gulf operations which only leaves rail sales as regulated through the cost plus 12% return formula. As such, EFC had to amend their billing structure accordingly. In 1995 EFC non-regulated billed EFC regulated ~~33~~ when the coal reached IMT piles. When the coal reaches Crystal River the remaining ~~33~~ is billed by EFC non-regulated to EFC regulated. Billings to Florida Power Corporation are set at ~~33~~ per ton upon delivery of the coal to Crystal River.

KPMG procedures to test the rate order effective for 1995 will include reviewing cost per ton by supplier for each of the Crystal River piles to determine that costs per ton charged to regulated coal by unregulated coal are reasonable based on the new rate of ~~33~~ per ton. See W/P E-7-1 and E-7-2. These costs are then built in to the amounts charged to FPC. KPMG will review the billings to FPC to verify that the proper rate is being charged.

Essentially, this rate order has caused EFC to come under much more market driven profit incentives. The revenue is now set at ~~33~~ per ton. Therefore there is a large incentive for EFC to acquire and move the coal by the most efficient means possible to provide the largest profit margin to the Company.

**CONFIDENTIAL**

9-4

Pg 33 of 35

PBC

DOCUMENT NUMBER-DATE

12924 DEC-4 95

FPSC-RECORDS/REPORTING

