ORIGINAL

Florida Power
A Progress Energy Company

ASSOCIATE GENERAL COUNSEL

JAMES A. MCGEE

October 15, 2001

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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Re: Docket No. 010001-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket are an original and ten copies of Florida Power Corporation's Preliminary List of Issues and Positions.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3.5 inch diskette containing the above-referenced document in WordPerfect format. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

JAM/scc
Enclosure

cc: Parties of record

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One Progress Plaza, Suite 1500 • Post Office Box 14042 • St. Petersburg, Florida 33733-4042
Phone: 727.820.5184 • Fax: 727.820.5519 • Email: james.mcgee@pgnmail.com

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased Power Cost Recovery Clause and Generating Performance Incentive Factor.

Docket No. 010001-EI

Submitted for filing: October 15, 2001

FLORIDA POWER CORPORATION'S PRELIMINARY LIST OF ISSUES AND POSITIONS

Florida Power Corporation (FPC), hereby submits its Preliminary List of Issues and Positions with respect to its levelized fuel and capacity cost recovery factors and its Generating Performance Incentive Factor (GPIF) for the period of January through December 2002, and states as follows:

Generic Fuel Adjustment Issues

1. ISSUE: What are the appropriate final fuel adjustment true-up amounts for the period January through December 2000?

   FPC: $29,378,219 under-recovery (not including the under-recovery of $27,608,904 previously deferred for recovery in 2002). (Portuondo)

2. ISSUE: What are the appropriate estimated fuel adjustment true-up amounts for the period January through December 2001?

   FPC: $33,346,822 over-recovery. (Portuondo)

3. ISSUE: What are the total fuel adjustment true-up amounts to be collected from January through December 2002?

   FPC: $23,640,300 under-recovery (including the previously deferred under-recovery in 2000). (Portuondo)

4. ISSUE: What is the appropriate levelized fuel cost recovery factor for the period of January through December 2002?

FPC: 2.687 cents per kWh (adjusted for jurisdictional losses). (Portuondo)

5. ISSUE: What should be the effective date of the new fuel cost recovery factors for billing purposes?

FPC: The new factors should be effective beginning with the first billing cycle for January 2002, and thereafter through the last billing cycle for December 2002. The first billing cycle may start before January 1, 2002, and the last billing cycle may end after December 31, 2002, so long as each customer is billed for twelve months regardless of when the factors became effective.

6. ISSUE: What are the appropriate fuel recovery line loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate/delivery voltage level group?

FPC:

Group	Delivery Voltage Level	Line Loss Multiplier
A.	Transmission	0.9800
B.	Distribution Primary	0.9900
C.	Distribution Secondary	1.0000
D.	Lighting Service	1.0000

(Portuondo)

7. ISSUE: What are the appropriate fuel cost recovery factors for each rate/delivery voltage level group, adjusted for line losses?

FPC:

		Fuel Cost Factors (cents/kWh)		
			Time Of Use	
Group	Delivery Voltage Level	Standard	On-Peak	Off-Peak
A.	Transmission	2.638	3.208	2.393
B.	Distribution Primary	2.500	3.241	2.417
C.	Distribution Secondary	2.692	3.273	2.442
D.	Lighting Service	2.597		

(Portuondo)

8. ISSUE: What is the appropriate revenue tax factor to be applied in calculating each company's levelized fuel factor for the projection period of January through December 2002?

   FPC: 1.00072 (Portuondo)

9. ISSUE: What is the appropriate benchmark level for calendar year 2001 for gains on non-separated wholesale energy sales eligible for a shareholder incentive as set forth by Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000, for each investor-owned electric utility?

   FPC: $11,880,954 (Portuondo)

10. ISSUE: What is the appropriate estimated benchmark level for calendar year 2002 for gains on non-separated wholesale energy sales eligible for a shareholder incentive as set forth by Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000, for each investor-owned electric utility?

    FPC: $11,354,219 (Portuondo)

11. ISSUE: Has each investor-owned electric utility taken reasonable steps to manage the risks associated with its fuel transactions through the use of physical and financial hedging practices?

    FPC: While FPC has not historically used financial hedging in its management of fuel transaction risks, the Company has used a combination of pricing options and physical inventory controls to manage these risks in a reasonable manner. (Murphy/Niekum)

12. ISSUE: What is the appropriate regulatory treatment for gains and losses from hedging an investor-owned electric utility's fuel transactions through futures contracts?

    FPC: The Commission should adopt a policy on the treatment of the gains and losses of the hedging practices identified in this issue which provides for the recovery of a utility's costs associated with both successful and unsuccessful transactions, and makes clear that the Commission's review of a utility's hedging activities will be based on the reasonableness of those activities at the time they were conducted, and not on the results of the activities determined after the fact. In addition, if the Commission determines that it wants to affirmatively encourage utilities to proactively engage in hedging activities, it should consider including an explicit economic incentive in the policy. An incentive may be especially appropriate in view of the utility resources and infrastructure required to deal with the risks and complexity of many hedging activities. The workshop process would be an appropriate vehicle to explore the possibility of adopting a utility hedging incentive. (Portuondo)

13. ISSUE: What is the appropriate regulatory treatment for the premiums received and paid for hedging an investor-owned electric utility's fuel transactions through options contracts?

    FPC: The Commission should adopt a policy on the treatment of premiums for the hedging practices identified in this issue which provides for the recovery of a utility's costs associated with both successful and unsuccessful transactions, and makes clear that the Commission's review of a utility's hedging activities will be based on the reasonableness of those activities at the time they were conducted, and not on the results of the activities determined after the fact. In addition, if the Commission determines that it wants to affirmatively encourage utilities to proactively engage in hedging activities, it should consider including an explicit economic incentive in the policy. An incentive may be especially appropriate in view of the utility resources and infrastructure required to deal with the risks and complexity of many hedging activities. The workshop process would be an appropriate vehicle to explore the possibility of adopting a utility hedging incentive. (Portuondo)

14. ISSUE: What is the appropriate regulatory treatment for the transaction costs associated with an investor-owned electric utility hedging its fuel transactions?

    FPC: The Commission should adopt a policy on the treatment of transaction costs associated with the hedging practices identified in this issue which provides for the recovery of a utility's costs associated with both successful and unsuccessful transactions, and makes clear that the Commission's review of a utility's hedging activities will be based on the reasonableness of those activities at the time they were conducted, and not on the results of the activities determined after the fact. In addition, if the Commission determines that it wants to affirmatively encourage utilities to proactively engage in hedging activities, it should consider including an explicit economic incentive in the policy. An incentive may be especially appropriate in view of the utility resources and infrastructure required to deal with the risks and complexity of many hedging activities. The workshop process would be an appropriate vehicle to explore the possibility of adopting a utility hedging incentive. (Portuondo)

15. ISSUE: What is the appropriate regulatory treatment for capital projects with an in-service date on or after January 1, 2002, that are expected to reduce long-term fuel costs?

    FPC: The Commission should continue its long standing practice of allowing cost recovery for capital projects which produce customer fuel savings in excess of the cost to achieve, so long as the costs are not being recovered through base rates or elsewhere. This practice matches the project's costs with the same recovery mechanism that provides the project's benefits, and it encourages utilities to pursue these cost saving projects by eliminating the revenue requirement deficiency they would otherwise experience. (Portuondo)

16. ISSUE: What is the appropriate rate of return on the unamortized balance of capital projects with an in-service date on or after January 1, 2002, that are expected to reduce long-term fuel costs?

    FPC: The appropriate rate of return is the utility's current cost of capital determined using the return on equity approved in its last base rate proceeding. (Portuondo)

17. ISSUE: If an investor-owned electric utility exceeds the ceiling on its authorized return on common equity, can and/or should the Commission reduce by a commensurate amount recovery of prudently-incurred expenditures through the Commission's fuel and purchased power cost recovery clause?

    FPC: The Commission cannot and should not use the fuel adjustment clause to remedy a utility's base rate over-earnings, any more than the Commission can or should use the clause to remedy a utility's under-earnings. The use of a pass-through clause as a true-up mechanism for base rates would be contrary to the statutory scheme governing the permissible actions the Commission may take to address a utility's over- or under-earnings. (Portuondo)

Company-Specific Fuel Adjustment Issues

19A. ISSUE: Has FPC confirmed the validity of the methodology used to determine the equity component of Electric Fuels Corporation's capital structure for calendar year 2000?

FPC: Yes. Florida Power's Audit Services Department has reviewed the analysis performed by Electric Fuels Corporation. Florida Power continues to believe that this analysis confirms the appropriateness of the "short cut" method. (Portuondo)

19B. ISSUE: Has FPC properly calculated the market price true-up for coal purchases from Powell Mountain?

FPC: Yes. The calculation has been made in accordance with the market pricing methodology approved by the Commission in Docket No. 860001-EI-G. (Portuondo)

19C. ISSUE: Has FPC properly calculated the 2000 price for waterborne transportation services provided by Electric Fuels Corporation?

FPC: Yes. The 2000 waterborne transportation calculation has been properly made in accordance with the methodology used for prior years' calculations that have been approved by the Commission. (Portuondo)

19D. ISSUE: For the period March 1999, to March 2001, did Florida Power take reasonable steps to manage the risk associated with changes in natural gas prices?

FPC: Yes, the risk management actions taken by FPC were reasonable and mitigated the increases in natural gas prices experienced during this period. (Murphy/Niekum)

19E. ISSUE: Were Florida Power's replacement fuel costs for the unplanned outage at Crystal River Unit 2, commencing on June 1, 2000, reasonable?

FPC: Yes. The outage began when a high voltage disconnect switch failed, which resulted in a high energy fault that caused significant damage to the generator rotor. FPC could not have foreseen that the operation of this switch, which had been operated under similar circumstances many times, would lead to the damage that occurred. The resulting three-month outage to remove, repair and reinstall the generator rotor was reasonable and, in fact, fortuitous, since it was only through the persistence of the FPC employees that an outage of at least a year, and possibly as long as 18 months, was avoided. (Connolly)

19F. ISSUE: Should the Commission allow Florida Power to recover payments made to Lake Cogen, Ltd. resulting from litigation between Florida Power and Lake Cogen, Ltd.?

FPC: The Commission should allow recovery of the payments FPC is required to make to Lake Cogen by the court's final order. Since 1994, when FPC began making payments to Lake Cogen and other similarly situated cogenerators based on its interpretation of the contractual energy pricing provisions, the Company has diligently pursued the support of this energy pricing interpretation by the Commission on several occasions and by the courts in numerous lawsuits brought against FPC by the affected cogenerators. As the Commission is aware, FPC has a long and continuous track record with its efforts to mitigate the effects of its high cost cogeneration contracts through settlements, innovative modifications, contract restructuring, buy-outs, early terminations and the purchase of cogeneration facilities. These efforts will save FPC's customers billion of dollars. While the Lake Cogen piece of FPC's cogeneration mitigation program did not have the positive outcome that the Company and the Commission would have preferred, this outcome occurred despite FPC's efforts and commitment over the last seven years and, in fairness, should be viewed in the context of the significant customer benefits the Company's overall cogeneration mitigation program has achieved. (Portuondo)

Generic Generating Performance Incentive Factor Issues

23. ISSUE: What is the appropriate GPIF reward or penalty for performance achieved during the period of January through December 2000?

FPC: $266,919 reward. (Jacob)

24. ISSUE: What should the GPIF targets/ranges be for the period of January through December, 2002?

FPC: See Attachment A (page 3 of Exhibit MFJ-1). (Jacob)

Generic Capacity Cost Recovery Issues

25. ISSUE: What is the appropriate final capacity cost recovery true-up amount for the period of January through December 2000?

    FPC: $1,402,548 under-recovery. (Portuondo)

26. ISSUE: What is the appropriate estimated capacity cost recovery true-up amount for the period of January through December 2001?

    FPC: $2,309,584 under-recovery. (Portuondo)

27. ISSUE: What is the appropriate total capacity cost recovery true-up amount to be collected during the period January through December 2002?

    FPC: $3,712,132 under-recovery. (Portuondo)

28. ISSUE: What is the appropriate projected net purchase power capacity cost recovery amount to be included in the recovery factor for the period January through December 2002?

    FPC: $343,015,424. (Portuondo)

29. ISSUE: What are the appropriate jurisdictional separation factors to be applied to determine the capacity costs to be recovered during the period January through December 2002?

    FPC: Base - 97.560%, Intermediate - 71.248%, Peaking - 76.267%. (Portuondo)

30. ISSUE: What are the projected capacity cost recovery factors for the period January through December 2002?

FPC:

Rate Class	CCR Factor
Residential	1.132 cents/kWh
General Service Non-Demand	.849 cents/kWh
@ Primary Voltage	.840 cents/kWh

@ Transmission Voltage	.832 cents/kWh
General Service 100% Load Factor	.621 cents/kWh
General Service Demand	.737 cents/kWh
@ Primary Voltage	.730 cents/kWh
@ Transmission Voltage	.722 cents/kWh
Curtailable	.526 cents/kWh
@ Primary Voltage	.520 cents/kWh
@ Transmission Voltage	.515 cents/kWh
Interruptible	.612 cents/kWh
@ Primary Voltage	.606 cents/kWh
@ Transmission Voltage	.599 cents/kWh
Lighting	.181 cents/kWh

(Portuondo)

Respectfully submitted,

FLORIDA POWER CORPORATION

By James A. McGee

James A. McGee
Post Office Box 14042
St. Petersburg, FL 33733-4042
Telephone: (727) 820-5184
Facsimile: (727) 820-5519

FLORIDA POWER CORPORATION

DOCKET NO. 010001-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of Florida Power Corporation's Preliminary List of Issues and Positions has been furnished to the following individuals by regular U.S. Mail the 16th day of October, 2001.

W. Cochran Keating, Esquire
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Robert Vandiver, Esquire
Office of the Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400

Lee L. Willis, Esquire
James D. Beasley, Esquire
Ausley & McMullen
P.O. Box 391
Tallahassee, FL 32302

Matthew M. Childs, Esquire
Steel, Hector & Davis
215 S. Monroe Street, Suite 601
Tallahassee, Florida 32301

Jeffrey A. Stone, Esquire
Russell A. Badders, Esquire
Beggs & Lane
P. O. Box 12950
Pensacola, FL 32576-2950

Norman Horton, Jr., Esquire
Messer, Caparello & Self
P. O. Box 1876
Tallahassee, FL 32302

John W. McWhirter, Jr., Esquire
McWhirter, Reeves, et al.
400 N. Tampa Street, Suite 2450
Tampa, FL 33601

Joseph A. McGlothlin, Esquire
Vicki Gordon Kaufman, Esquire
McWhirter, Reeves, et al.
117 S. Gadsden Street
Tallahassee, FL 32301

Attorney