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Florida Power
CORPORATION

JAMES P. FAMA
DEPUTY GENERAL COUNSEL

April 3, 1996

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0870

Re: Docket No. 960193-EQ

Dear Ms. Bayó:

Enclosed for filing please find the original and 10 copies of Florida Power Corporation's Notice of Intent to Request Confidential Classifiication. In conformance with this Notice, I have enclosed two separate, sealed envelopes containing redacted and unredacted versions of the material for which Florida Power is seeking confidential classification. **This unredacted version should be held as Confidential Information in accordance with Rule 25-22.006, F.A.C.**

Also enclosed for filing in this docket are the original and one copy of Florida Power Corporation's Notice of Service of Responses to Staff's First Set of Interrogatories and our redacted verions of Responses.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Thank you for your assistance in this matter.

Very truly yours,

James P. Fama

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Enclosures

Redacted — DOCUMENT NUMBER-DATE 03949 APR-4 96
Conf — DOCUMENT NUMBER-DATE 03948 APR-4 96 FPSC-RECORDS/REPORTING
Notc of Intent — DOCUMENT NUMBER-DATE 03947 APR-4 96 FPSC-RECORDS/REPORTING
Ntc of Ser — DOCUMENT NUMBER-DATE 03946 APR-4 96 FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Expedited Approval of Settlement Agreement by Florida Power Corporation.

Docket No. 960193-EQ

Submitted for filing:
April 3, 1996

FLORIDA POWER CORPORATION'S RESPONSES TO STAFF'S FIRST SET OF INTERROGATORIES TO FLORIDA POWER CORPORATION (NOS. 1-13)

Florida Power Corporation ("FPC") hereby responds to Staff's First Set of Interrogatories to Florida Power Corporation, filed March 21, 1996. Responses are provided for all requests.

INTERROGATORIES

1. Please list all the changes to Orlando Cogen, L.P.'s (OCL) natural gas supply arrangements brought about by the Settlement. Will there by any added costs to FPC if OCL is not required to install a Back-up fuel supply system? If so, please explain those costs.

Response This settlement agreement restricts OCL from making changes to its natural gas supply and transportation arrangements. OCL is required in Section 3.3.1 of the settlement agreement to maintain a gas supply of like quality to its present arrangements until January 1, 2014. Similarly, Section 3.3.2 requires OCL to maintain a firm transportation agreement of like quality to its present arrangements through out the term of the purchased power agreement.

In its case, OCL challenged FPC's position that OCL did not have the contractually required back-up fuel supply. This settlement specifies, however, that in the event OCL can not perform under its contract with FPC due to an interruption of its primary fuel supply and concurrent lack of an adequate back-up fuel supply, OCL will reimburse FPC $40,000 per hour up to $600,000 per year with a lifetime maximum of $3,600,000. In the event that OCL cannot perform under its contract and FPC cannot replace the energy on its own system and OCL's $40,000 per hour payment is insufficient to cover the market replacement rate, then FPC would purchase the replacement energy at market rates and collect the difference through the fuel adjustment clause. In almost all cases, OCL's hourly energy payment ($505.05 per MWh) will more than compensate FPC's ratepayers for the cost of replacement energy.

2. OCL has agreed to compensate FPC in the amount of $40,000 an hour in the event OCL suffers a full or partial forced outage. How will FPC book the revenue associated with this compensation?

Response: A payment from OCL to FPC for a full or partial outage will be booked in a manner that offsets fuel and replacement energy costs via FPC's fuel adjustment clause.

3. Please provide a revenue requirement comparison of the firm energy payments to OCL in the original negotiated contract with the firm energy payments in the settlement agreement (section 9.1.2). Provide all the assumptions.

Response: The determination of firm energy payments to OCL described in the original negotiated contract was a fundamental issue in the resulting lawsuit. OCL disputed FPC's coal transportation costs to the Crystal River 1 & 2 site, specifically the allocation of rail and barge transportation between Crystal River units 1 & 2 and units 4 & 5. The settlement agreement arrived at a negotiated delivered coal price of $1.76/MMBtu in 1996, [redacted]

Table A presents yearly revenue requirements according to FPC's viewpoint of OCL's position, and the corresponding assumed coal forecast. Table A also presents yearly revenue requirements according to the settlement agreement, the corresponding assumed coal forecast, and the discount multiplier used to calculate the Off-Peak energy payments during the thirteen Off-Peak hours of each day. The OCL contract specifies a committed capacity of 79.2 MW and a heat rate of 9,830 Btu/kWh. The forecasted delivery voltage adjustment is 1.0297 and the assumed capacity factor is 95% for all years.

4. **Please provide a revenue requirement comparison of the As-Available energy payment to OCL in the original negotiated contract with the As-Available energy payment in the settlement agreement. Provide all the assumptions.**

Response: FPC's forecast of total energy payments to OCL according to FPC's position and the corresponding assumed coal forecast is included in Table B. Total energy payments are the sum of the firm energy payments when the avoided unit would have been scheduled on, and the As-Available energy payments when the avoided unit would have been scheduled off. The PROMOD modeling used to calculate this forecast of total energy payments cannot separate the As-Available portion from the firm energy portion.

According to the settlement agreement, all energy deliveries during On-Peak hours are paid Firm. During Off-Peak hours, all energy deliveries are paid the greater of Firm times the discount multiplier (Off-Peak) presented in Table A or the As-Available energy price (floor), but never to exceed the Firm price (ceiling). The sum of On-Peak and Off-Peak energy deliveries is now called Negotiated energy. Table A shows "Energy Payments according to Settlement", which is the payments for the Negotiated energy. The Off-Peak energy portion of the Negotiated energy is priced at Firm times the discount multiplier.

FPC has a separate allocation agreement with the Reedy Creek Improvement District and OCL, which specifies that FPC will pay OCL As-Available energy prices for certain energy deliveries that were declined by Reedy Creek. This separate agreement is not included in the interrogatory responses.

5. **According to amendment 12.1.5 of the settlement agreement, FPC will issue an adjustment to each monthly bill issued to OCL for each month during the period in which the full firm energy cost is recalculated. Please provide a revenue requirement comparison between the Firm Energy payment with the recalculation and the Firm Energy payment without the recalculation. Provide all the assumptions.**

Response: Section 12.1.5 was added to the contract to provide a means to make the adjustments contemplated in the Coal Price definition of the settlement agreement (Section 1.46). The Coal Price uses the higher of the three month rolling average monthly inventory charge out price of coal burned at Crystal River 1 & 2 or the Proxy Coal Price for the current year. It was recognized that the current year's Proxy Coal Price will not be available until after some payments must be made in the beginning of the year. For example, the payment for energy purchased in January 1997 payment will be made before the 1997 Proxy Coal Price is known. Once the Proxy Coal Price is known, then the payment made (based on the previous year's Proxy Coal Price) may have been too high or too low. Section 12.1.5 states that once the current year's Proxy Coal Price is known and that year's payments are recalculated, as necessary, then an adjustment will be made which will include interest. Therefore, this adjustment is only to correct the current year's Proxy Coal Price and may be either positive or negative. As a result, there will be no effect on revenue requirements.

6. **Please provide the savings attributed to the curtailment provisions of the settlement agreement. Provide all the assumptions.**

Response: The forecast of the savings attributed to the curtailment provisions of the settlement is presented in Table C. According to the settlement, OCL has agreed to reduce its output to 67.2 MW for six hours a night during the seven non-summer months of the year. The curtailment savings accrue to the benefit of the ratepayers because FPC can replace OCL's curtailed energy on its system at a lower total cost than the original contract price.

7. **Please provide all the assumptions used for the Avoided unit identified in the settlement agreement.**

Response: The characteristics which describe the contractual Avoided unit have not changed as a result of this settlement agreement. In the settlement agreement, the Avoided unit is no longer considered when pricing energy. According to the settlement, energy is priced as described in the response to Interrogatory 4.

8. **Please provide a revenue requirement comparison of the changes in Appendix C, Schedule 6, page 1 of 1 of the negotiated contract with its replacement in the Settlement Agreement. Provide all the assumptions.**

Response: FPC does not forecast any significant revenue requirement changes due to the modifications of Appendix C, Schedule 6 in the settlement agreement. There were three types of modifications made. The first modification involved restating the energy cost labeled $EP2_t$ to be consistent with the settlement language. The second modification in Note 2 turns off the performance adjustment in the event of a fuel supply or fuel transportation interruption for a limited number of hours. OCL already addressed the fuel interruption issue by agreeing to compensate FPC $40,000 per hour if an interruption occurs. The third modification was required so that OCL would not be penalized for curtailing energy deliveries pursuant to FPC's request.

9. Please explain the part of section 8.5 of the settlement agreement that exempts OCL from penalties for outages due to a fuel supply or transportation interruption that does not qualify as a force majeure event.

Response: In order to respond to this question, it is assumed that the section reference should have been to Section 8.3 of the contract as amended in the settlement agreement. Section 8.3 excludes the first 33 On-Peak Hours of each event where OCL suffers a full or partial forced outage due to a fuel supply or fuel transportation interruption that dose not qualify as a force majeure event. This exemption was negotiated based upon each party's position regarding the likelihood of such outages and the agreed upon financial compensation for such outages.

10. Please explain how FPC arrived at the retroactive energy payment to OCL in the amount of $282,000. How will this payment be collected?

Response: According to the settlement agreement, FPC agreed to pay OCL for all disputed energy payments using actual charge-out prices of Crystal River unit 1 & 2 coal. The disputed energy payments are defined as the difference between FPC's methodology under section 9.1.2 of the contract and firm energy payments for all energy deliveries, plus interest based on thirty day commercial paper for the time period from August 9, 1994 through December 31, 1995. The several payments made to OCL were reflected as a line item on OCL's regular monthly statements from FPC, and are as follow:

- $2,019,000 wired to OCL on November 29, 1995

- \$307,000 wired to OCL on December 29, 1995
- \$334,000 wired to OCL on January 30, 1996, and
- \$282,000 wired to OCL on February 12, 1996

11. Please explain why it is necessary to provide for further negotiations during the execution of the negotiated contract? Please explain why the settlement agreement does not provide for an independent mediator to resolve disputes in interpreting the contracts.

Response: Section 8 of the settlement agreement provides a method for FPC and OCL to resolve any future disputes. This section was included in an effort to avoid costly litigation or mediation by first involving parties on both sides who are at a Vice President level of management. Both parties felt that these further negotiations would be sufficient to obviate the need for mediation.

12. Provide the savings/costs associated with the Coal payments and the O&M Escalator factors that were established in the settlement agreement.

Response: [redacted]

The original contractual O&M annual escalation rate was 5.1%, while the settlement agreement O&M annual escalation rate is 4.5%. This reduction produces savings for ratepayers. The savings associated with the reduction of the O&M escalation factor are presented in Table D.

13. What savings will FPC's ratepayers receive if this settlement agreement is approved?

Response: The savings accrued to the benefit to FPC's ratepayers are presented in Exhibit "B" of FPC's Petition for Expedited Approval of Settlement Agreement between Florida Power Corporation and Orlando Cogen, Ltd., which was filed by Florida Power Corporation on February 19, 1996.

14. Please provide the basis or method for determining both the $1.76/MMBtu proxy coal price for 1996 and the $1.73/MMBtu coal price floor.

Response: OCL's position included a contention over FPC's calculation of the contractually required delivered coal price of Crystal River Units 1 & 2, 1.15% sulfur by weight at 11,000 Btu/lb. The $1.76/MMBtu proxy coal price in the settlement agreement was negotiated between FPC and OCL to resolve the disputed coal transportation allocation issue. The $1.73/MMBtu coal price floor was also negotiated between FPC and OCL.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 960193-EQ

AFFIDAVIT

I, Robert D. Dolan, having been first duly sworn, hereby depose and affirm that I am employed by Florida Power Corporation in the capacity of Manager of Cogeneration Contracts and Administration and that I am the person who provided answers for the Response of Florida Power Corporation to Staff's First Set of Interrogatories to Florida Power Corporation and that said answers are true and correct to the best of my knowledge and belief.

Dated this 3rd day of April, 1996

FLORIDA POWER CORPORATION

By: Robert D. Dolan

Robert D. Dolan
Its: Manager, Cogeneration Contracts
and Administration

The foregoing was acknowledged before me this 3rd day of April, 1996, by Robert D. Dolan, who is personally known to me and who took an oath.

Janet M. Lebrecht

Notary

JANET M. LEBRECHT
Notary Public, State of Florida
My Comm. Expires Jan. 31, 1998
No. CC345484

TABLE A
Comparison of Yearly Revenue Requirements
for Firm Energy Payments and Settlement Energy Payments

	[redacted]	[redacted]	Variable O&M per contract ($/MWh)	Energy Payments according to Settlement	Coal Forecast according to Settlement	Off-Peak Discount	Variable O&M per Settlement ($/MWh)
1996	[redacted]	[redacted]	$6.02	$15,591,248	$1.76	0.97	$5.99
1997	[redacted]	[redacted]	$6.33	$15,934,815	$1.79	0.97	$6.26
1998	[redacted]	[redacted]	$6.66	$16,102,413	$1.80	0.96	$6.54
1999	[redacted]	[redacted]	$6.99	$16,363,287	$1.85	0.93	$6.83
2000	[redacted]	[redacted]	$7.36	$16,764,110	$1.90	0.92	$7.14
2001	[redacted]	[redacted]	$7.72	$17,050,378	$1.93	0.91	$7.46
2002	[redacted]	[redacted]	$8.12	$17,357,151	$1.98	0.90	$7.80
2003	[redacted]	[redacted]	$8.53	$18,056,134	$2.03	0.90	$8.15
2004	[redacted]	[redacted]	$8.97	$18,605,774	$2.07	0.90	$8.52
2005	[redacted]	[redacted]	$9.42	$18,999,229	$2.11	0.90	$8.90
2006	[redacted]	[redacted]	$9.90	$19,520,694	$2.15	0.90	$9.30
2007	[redacted]	[redacted]	$10.41	$20,134,329	$2.20	0.90	$9.72
2008	[redacted]	[redacted]	$10.94	$20,825,735	$2.26	0.90	$10.15
2009	[redacted]	[redacted]	$11.50	$21,424,979	$2.32	0.90	$10.61
2010	[redacted]	[redacted]	$12.09	$21,470,840	$2.37	0.85	$11.09
2011	[redacted]	[redacted]	$12.70	$22,152,391	$2.44	0.85	$11.59
2012	[redacted]	[redacted]	$13.36	$22,920,204	$2.50	0.85	$12.11
2013	[redacted]	[redacted]	$14.03	$23,687,077	$2.56	0.85	$12.65
2014	[redacted]	[redacted]	$14.74	$24,341,796	$2.63	0.85	$13.22
2015	[redacted]	[redacted]	$15.50	$25,122,048	$2.69	0.85	$13.82
2016	[redacted]	[redacted]	$16.29	$26,001,694	$2.76	0.85	$14.44
2017	[redacted]	[redacted]	$17.12	$26,766,762	$2.83	0.85	$15.09
2018	[redacted]	[redacted]	$17.99	$27,632,129	$2.90	0.85	$15.77
2019	[redacted]	[redacted]	$18.91	$28,527,762	$2.96	0.85	$16.48
2020	[redacted]	[redacted]	$19.87	$29,474,270	$3.04	0.85	$17.22
2021	[redacted]	[redacted]	$20.88	$30,280,427	$3.11	0.85	$18.00
2022	[redacted]	[redacted]	$21.96	$31,215,980	$3.18	0.85	$18.81
2023	[redacted]	[redacted]	$23.07	$32,174,576	$3.25	0.85	$19.66

TABLE B
FPC's Pre-Settlement Energy Payment Position

	[redacted]	CR 1&2 Coal Forecast ($/MMBtu)
1996	[redacted]	$1.68
1997	[redacted]	$1.71
1998	[redacted]	$1.72
1999	[redacted]	$1.77
2000	[redacted]	$1.81
2001	[redacted]	$1.84
2002	[redacted]	$1.87
2003	[redacted]	$1.94
2004	[redacted]	$1.98
2005	[redacted]	$2.01
2006	[redacted]	$2.05
2007	[redacted]	$2.10
2008	[redacted]	$2.16
2009	[redacted]	$2.21
2010	[redacted]	$2.27
2011	[redacted]	$2.32
2012	[redacted]	$2.38
2013	[redacted]	$2.44
2014	[redacted]	$2.51
2015	[redacted]	$2.57
2016	[redacted]	$2.64
2017	[redacted]	$2.70
2018	[redacted]	$2.77
2019	[redacted]	$2.84
2020	[redacted]	$2.91
2021	[redacted]	$2.97
2022	[redacted]	$3.04
2023	[redacted]	$3.10

TABLE C
Ratepayer Savings due to Curtailment Provision of Settlement

	Savings due to Curtailment
1996	[redacted]
1997	
1998	
1999	
2000	
2001	
2002	
2003	
2004	
2005	
2006	
2007	
2008	
2009	
2010	
2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018	
2019	
2020	
2021	
2022	
2023	

TABLE D
Ratepayer Savings due to Coal Payments and O&M Escalation in Settlement

	Coal Savings	O&M Savings
1996	[redacted]	$23,397
1997	[redacted]	$48,906
1998	[redacted]	$76,880
1999	[redacted]	$107,428
2000	[redacted]	$141,117
2001	[redacted]	$176,986
2002	[redacted]	$216,398
2003	[redacted]	$259,187
2004	[redacted]	$306,425
2005	[redacted]	$355,847
2006	[redacted]	$410,231
2007	[redacted]	$469,019
2008	[redacted]	$533,967
2009	[redacted]	$601,017
2010	[redacted]	$674,880
2011	[redacted]	$754,455
2012	[redacted]	$842,422
2013	[redacted]	$932,277
2014	[redacted]	$1,031,354
2015	[redacted]	$1,137,802
2016	[redacted]	$1,255,533
2017	[redacted]	$1,374,764
2018	[redacted]	$1,506,326
2019	[redacted]	$1,647,367
2020	[redacted]	$1,803,416
2021	[redacted]	$1,960,337
2022	[redacted]	$2,133,595
2023	[redacted]	$2,318,986