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**Florida
Power**
CORPORATION

JAMES A. MCGEE
SENIOR COUNSEL

February 11, 1997

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

Re: Docket No. 970096-EQ

Dear Ms. Bayó:

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

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

- ACK _____
- AFA 1
- APP _____
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- LEG 1
- LIN 5
- OPC _____
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JAM/kp
Enclosures

cc: Parties of record

GENERAL OFFICE

DOCUMENT NUMBER-DATE

In re: Petition for expedited approval of an agreement to purchase the Tiger Bay cogeneration facility and terminate related purchased power contracts by Florida Power Corporation.

Docket No. 970096-EQ

Submitted for filing:
February 12, 1997

**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 proposed purchase of the Tiger Bay cogeneration facility and termination of the related power purchase agreements (PPAs), and states as follows:

1. **ISSUE:** Should the Commission approve the purchase agreement between Florida Power and the owners of Tiger Bay?

FPC: Yes. The Tiger Bay purchase will produce net savings for Florida Power's customers of between \$2.0 billion and \$2.4 billion in cumulative payments, or net present value savings of between \$280 million and \$388 million. (Dolan)

2. **ISSUE:** Is the purchase price for the Tiger Bay transaction a fair price to pay for the benefits to be derived by customers?

FPC: Yes. The purchase price resulted from intensive negotiations between Florida Power and Tiger Bay and is as low of price as Tiger Bay's

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owners could be reasonably expected to accept. In order for these owners to be better off under the purchase agreement than under the PPAs, they will have to earn in excess of 12% on the proceeds from the purchase price every year for the next 27 years. The Tiger Bay transaction, including the \$445 million price and other terms and benefits of the transaction, represents an outstanding, one-of-a-kind opportunity to realize savings for Florida Power's customers. (Dolan)

3. **ISSUE:** Should the purchase cost (*i.e.*, the purchase price plus related financing costs) be recovered entirely through the Capacity Cost Recovery (CCR) clause?

FPC: Yes. The benefits to be achieved from this transaction are 100% capacity related. Recovery of the purchase cost through the CCR clause will result in customer costs after the transaction that approximates, as closely as possible, the ratio of cost recovery between the CCR and fuel clause that existed before the transaction. (Scardino)

4. **ISSUE:** Should the purchase cost be recovered over five years?

FPC: Yes. A shorter recovery period would raise customer rates further during the recovery period. A longer recovery period would both diminish and delay the realization of customer savings due to this transaction. A five-year recovery period represents a reasonable balancing of the timing of costs versus the recognition of the benefits resulting from this transaction. (Dolan)

5. **ISSUE:** Should Florida Power be granted the latitude to manage the collection of the purchase price over a five-year period?

FPC: Yes. This latitude may take the form of a non-levelized recovery of the purchase cost using a "constant purchasing power" methodology similar to that authorized by the Commission for fossil plant dismantlement cost recovery, and/or deferring the commencement of the five-year recovery period to April or October 1998. The sole purpose of this latitude would be to stabilize the total rate charged to customers to the extent that recovery of the Tiger Bay purchase cost may interact with other changes in Florida Power's rates. (Scardino)

6. **ISSUE** What is the appropriate book value of the Tiger Bay facility for Florida Power to use in accounting for this transaction?

FPC: The appropriate book value of the facility's plant, inventory and equipment is \$170.6 million. The estimated book value of \$162.7 million contained in the testimony of Mr. Scardino was based on a preliminary review of Tiger Bay original cost documents for the facility, adjusted to remove items which the Company believes the Commission would not have allowed to be capitalized. Subsequent analysis has determined that \$170.6 million is the appropriate book value for the facility. (Scardino)

7. **ISSUE:** Should Florida Power's proposed accounting treatment for the recovery of the purchase cost and depreciation of the book value of the facility be approved?

FPC: Yes. The accounting treatment of the transaction proposed by Florida Power complies with applicable standards of the Code of Federal Regulations and the Financial Accounting Standards Board. (Scardino)

8. ISSUE: Should approval be granted to terminate the five PPAs?

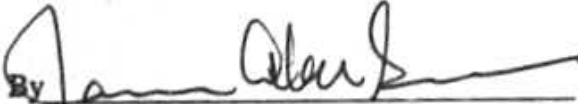
FPC: Yes. The benefits from this transaction result from discontinuing capacity payments under the existing PPAs. (Dolan)

9. ISSUE: Should Florida Power be granted approval to recover the Tiger Bay facility's natural gas costs through the Fuel and Purchased Power Cost Recovery clause?

FPC: Yes. Although the natural gas fuel cost of the Tiger Bay facility is projected to be above market, in order to capture the overall savings of this transaction, Florida Power had to be willing to assume the existing gas supply contract. (Dolan)

Respectfully submitted,

OFFICE OF THE GENERAL COUNSEL
FLORIDA POWER CORPORATION

By 

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