



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: February 21, 1997
TO: All Parties
FROM: Lorna R. Wagner, Attorney, Division of Legal Services *LW*
 William C. Keating, Attorney, Division of Legal Services *WCK*
RE: Docket No. 970096-EQ - Petition for expedited approval of agreement with Tiger Bay Limited Partnership to purchase Tiger Bay cogeneration facility and terminate related purchased power contracts by Florida Power Corporation.

Via Facsimile

The following is a revised list of issues agreed upon by the parties in the above referenced docket. If you have any questions, please contact us at (904) 413-6199.

Revised List of Issues

- Issue 1:** Has Florida Power Corporation provided adequate assurances regarding the operational reliability of the Tiger Bay generating facility?
- Issue 2:** Has Florida Power Corporation provided adequate assurances regarding the financial viability of the Tiger Bay generating facility?
- Issue 3:** Are Florida Power Corporation's projections of non-fuel operating expenses reasonable?
- Issue 4:** Has Florida Power Corporation provided adequate assurances that sufficient natural gas pipeline capacity will be available to transport natural gas to the Tiger Bay facility?
- Issue 5:** Is Florida Power Corporation's fuel price forecast reasonable?
- Issue 6:** Are Florida Power Corporation's financial assumptions reasonable?
- Issue 7:** What is the appropriate annual accrual amount for the provision of final dismantlement of the Tiger Bay facility?
- Issue 8:** What is the appropriate remaining life, net salvage, reserve, and resultant depreciation rate for the Tiger Bay facility?

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Issue 21: What is the appropriate amortization period for recovering the cost of terminating the power purchase agreements?

Issue 22:
FPC: Should Florida Power be granted the latitude to manage the collection of the purchase price over the amortization period?

Issue 23:
FIPUG: Will the contract buyout and plant purchase cause rate shock?

Issue 24:
FIPUG: Will the proposal impact economic development within Florida Power Corporation's service area?

Issue 25:
FIPUG: What impact will this proposal have on competition in the electric industry?

Issue 26:
VASTAR: Whether it is premature for the Florida Public Service Commission (the "Commission") to consider the Petition filed by Florida Power Corporation ("FPC") until Tiger Bay Limited Partnership ("TBLP") has obtained VGM's consents as required by the terms of TBLP's Gas Sales and Purchase Contract with VGM (the "Gas Sales Contract").

Issue 27: Should this docket be closed?

LW/js

cc: Blanca Bayo
Kenneth Dudley
Paul Stallcup

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1 of the management of various contractual agreements (e.g., purchase power
2 agreements, gas supply and transportation agreements, lease agreements, and
3 operations and maintenance agreements) between the partnerships and third
4 parties to ensure that contract administration is conducted in an effective
5 manner.

6
7 **Q. Please describe your educational and business background.**

8 **A. I have a Bachelor of Science Degree in Architectural Engineering and a**
9 **Master of Business Administration - Finance. Both degrees were obtained from**
10 **the University of Texas at Austin. In June 1987, I was employed as a Project**
11 **Engineer by L.F. Driscoll Company where I developed, implemented and**
12 **managed project budgets and scheduling for commercial office space and**
13 **hospital construction.**

14
15 **In 1990, I was employed by Austin Trust Company/Thornhill Securities. My**
16 **duties included the analysis of bond portfolios with respect to credit and**
17 **interest related risks. I also was responsible for preparing federal and state**
18 **employment tax and State Banking Commission reporting.**

19
20 **In 1991, I was employed as a Business Manager at Destec Energy, Inc. In that**
21 **capacity, I was directly responsible for the management of several partnerships.**
22 **These responsibilities included management of support staff, contract**
23 **administration, interest rate and gas price hedging, regulatory activities, utility**
24 **and steam host relations, and facility construction.**

25

1 A. Destec Management provides business management services to the Tiger
2 Bay Facility under a Business Management Agreement between Tiger Bay and
3 Destec Management, an affiliate of Destec, the owner of a 50.79% partnership
4 interest in Tiger Bay. As previously indicated, Tiger Bay owns the Tiger Bay
5 Facility, and on January 20, 1997, Tiger Bay, FPC Acquisition L.L.C. ("FPC"),
6 a wholly owned limited liability company subsidiary of Florida Power, and
7 Florida Power executed a Purchase Agreement (the "Purchase Agreement")
8 pursuant to which Tiger Bay agreed to sell and FPC agreed to purchase the
9 Tiger Bay Facility and certain other assets for a purchase price of
10 \$445,000,000.00, subject to certain adjustments, and Florida Power agreed
11 to guarantee the obligations of FPC.

12 **III. THE PURCHASE AGREEMENT TRANSACTION**

13
14
15 **Q. Please describe the transaction contemplated by the Purchase Agreement.**

16 **A. Under the Purchase Agreement, in addition to and in connection with the**
17 **sale of the Tiger Bay Facility, Tiger Bay agrees to assign to FPC certain material**
18 **contracts, which include, but are not limited to: (i) five separate power**
19 **purchase agreements (the "PPAs") under which Florida Power is currently**
20 **obligated to purchase, and Tiger Bay is obligated to make available to Florida**
21 **Power, the capacity of and energy generated by the Tiger Bay Facility, (ii) a**
22 **steam sales agreement (the "Steam Agreement") for the sale of the steam**
23 **generated by the Tiger Bay Facility to U.S. Agri-Chemicals Corporation; (iii) the**
24 **Lease of the site on which the Tiger Bay Facility is located (the "Lease"); (iv)**
25 **the contract with Destec Operating Company ("DOC") for the operation and**

1 maintenance of the Tiger Bay Facility (the "O&M Agreement"), which will be
2 modified to provide that either party may terminate the O&M Agreement on or
3 after nine months after the Purchase Agreement closing; and (v) Tiger Bay's
4 contracts for the supply and transportation of natural gas to fuel the Tiger Bay
5 Facility (the "Gas Agreements"). The Purchase Agreement provides for FPC to
6 assume and perform Tiger Bay's obligations under the Steam Agreement, the
7 Lease, the O&M Agreement and the Gas Agreements.

8
9 **Q. Are the obligations of the parties to the Purchase Agreement subject to any**
10 **conditions?**

11 **A. Yes. Article VI sets out a number of conditions to the obligations of the**
12 **parties. Section 6.01 specifies the conditions to FPC's and Florida Power's**
13 **respective obligations, and Section 6.02 specifies the conditions to Tiger Bay's**
14 **obligations. These conditions include, but are not limited to, the issuance by**
15 **the Commission of a final, non-appealable order approving the Purchase**
16 **Agreement transactions in form and substance satisfactory to FPC and Florida**
17 **Power.**

18
19 **Q. Is there any time limit for the satisfaction of such conditions?**

20 **A. Yes. Article VIII specifies certain dates by which various conditions must**
21 **be satisfied or waived by the parties. In particular, under Sections 8.01 (d) and**
22 **(h), either FPC and Florida Power or Tiger Bay may terminate the Purchase**
23 **Agreement if the Commission's order approving the Purchase Agreement**
24 **transaction has not been issued and become final and non-appealable by July**
25 **1, 1997. These sections further provide that if the Commission has issued an**

1 power generation industry. It consists of a GE Frame 7001FA gas turbine
2 generator with a Deltak heat recovery steam generator and a condensing GE
3 74.9 MW steam turbine. It has a combined cycle heat rate of less than 7500
4 Btus/Kwh. The Tiger Bay Facility was designed and built to operate as a base
5 load generator of electric power, and has been so operated since its January
6 1, 1995 official in-service date under the PPAs.

7
8 **Q. Has the Tiger Bay Facility proven to be operationally reliable?**

9 **A. Absolutely.** During 1996, (the second year of operation), the Tiger Bay
10 Facility's annual average availability factor was greater than 97% (excluding
11 scheduled downtime) and it operated with a 12-month average (ending
12 December 1996) capacity factor (as defined in the PPAs, as amended and/or
13 clarified) of 93.26%.

14
15 During 1995, (the first year of operation), the Plant's availability factor was
16 approximately 75%. The Tiger Bay Facility experienced several forced outages
17 attributable to normal start up operations and events associated with GE's
18 relatively new F-technology turbine and DLN-II dry low NO_x control technology.
19 The manufacturer conducted extensive root cause analysis and implemented
20 design changes in a manner which minimized the length of such outages.
21 Several warranty issues remain to be resolved; however, Tiger Bay is confident
22 that these items will be resolved during the normal course of business.

23
24 Routine operation and maintenance of the Tiger Bay Facility has been
25 effectively problem-free, and the condition of the equipment is such that,

1 A. The Purchase Agreement clearly reflects that the Tiger Bay Facility is, and
2 is anticipated to be over the long term, an economically viable investment for
3 the Tiger Bay partners. The Tiger Bay Facility was not for sale when Florida
4 Power approached Tiger Bay about the possibility of acquiring it. It is very
5 unlikely that Tiger Bay would have agreed to sell the Tiger Bay Facility if its
6 majority partner, Destec, had not itself been up for sale. It is for this reason
7 that Tiger Bay's obligation to close the Purchase Agreement transaction is
8 expressly conditioned on the prior closing of the sale of Destec. If that
9 transaction is not consummated, Destec and the other Tiger Bay partners want
10 the option of maintaining their investment in the Tiger Bay Facility. This vividly
11 demonstrates the economic viability of the Tiger Bay Facility.

12
13 **Q. Is there a sufficient supply of natural gas fuel and transportation committed**
14 **to the Tiger Bay Facility?**

15 A. The Gas Agreements, which as I have indicated will be assigned to FPC in
16 the Purchase Agreement transaction, provide sufficient gas and transportation
17 capacity for the operation of the Tiger Bay Facility on a base load basis when
18 supplemented with gas spot market purchases of less than 10% of the Plant's
19 total fuel requirements. The Gas Agreements include (i) service agreements
20 between Tiger Bay, as shipper, and Florida Gas Transmission Company, as
21 transporter, for 33,003 MMBtus/day of firm transportation capacity to the
22 Tiger Bay Facility, for terms (including extension rights) equivalent to the terms
23 of the PPAs, and (ii) a long term contract between Tiger Bay, as buyer, and
24 Vastar Gas Marketing, Inc., as seller, for a supply of up to 31,000 MMBtus/day
25 (plus applicable fuel retention for compression and line loss) of natural gas to

1 the Tiger Bay Facility on a firm basis. These quantities of supply and
2 transportation capacity were determined based on the operating requirements
3 of the Tiger Bay Facility, and if they were not in fact sufficient, it is unlikely
4 that Tiger Bay would have succeeded in obtaining permanent financing for the
5 Tiger Bay Facility on a non-recourse basis.

6

7 **Q. Does this conclude your testimony?**

8 **A. Yes, it does.**