FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

JANUARY 13, 1998

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FPSC - Records/Reporting

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (HARLOW, DRAPER, DUDLEY, KD
TEW, WHEELER)
DIVISION OF AUDITING & FINANCIAL ANALYSIS (MAUREY, JDJ
MCNULTY, NORIEGA)
DIVISION OF LEGAL SERVICES (KEATING) RVE ALM

RE: DOCKET NO. 961184-EQ - PETITION FOR APPROVAL OF EARLY TERMINATION AMENDMENT TO NEGOTIATED QUALIFYING FACILITY CONTRACT WITH ORLANDO COGEN LIMITED, LTD. BY FLORIDA POWER CORPORATION

AGENDA: 01/20/98 - REGULAR AGENDA - POST HEARING DECISION - PARTICIPATION LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\961184EQ.RCM
COMMISSION PANEL

CASE BACKGROUND

On July 1, 1991, the Commission issued Order No. 24734, in Docket No. 910401-EQ, approving the Negotiated Contract between Florida Power Corporation (FPC) and Orlando Cogen Limited, Ltd. (OCL), a qualifying facility (QF). The term of the negotiated contract is 30 years, beginning January 1, 1994 and ending December 31, 2023. Committed capacity under the contract is 79.2 megawatts, with capacity payments based on a 1991 pulverized coal-fired avoided unit. The Commission encouraged FPC and other utilities to negotiate contracts with QFs in lieu of accepting standard offer contracts.

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The Commission later approved an amendment to the Contract pursuant to a Settlement Agreement between FPC and OCL in Order No. PSC-96-0898-AS-EQ, issued July 12, 1996, in Docket No. 960193-EQ. The Settlement Agreement resolved an energy pricing dispute between FPC and OCL. In addition, OCL agreed to curtail energy deliveries according to the terms specified in the agreement.

On March 12, 1996, the Commission issued Order No. PSC-96-0352-FOF-EG in Docket No. 960002-EG, which approved FPC's request to defer crediting a 1995 over-recovery of approximately $17.7 million associated with its residential revenue decoupling experiment. The purpose of the deferral was to allow FPC to conduct a 'reverse auction' seeking future QF capacity payment reductions in exchange for up-front payments. By Order No. PSC-97-0291-FOF-EG, issued March 14, 1997, the 1995 revenue decoupling over-recovery balance plus accrued interest was refunded to FPC's residential customers through the Energy Conservation Cost Recovery Clause.

On May 2, 1996, FPC issued a Solicitation for Reverse Auction Bids to its operating QFs with firm capacity and energy contracts. FPC accepted two of the three bids submitted. However, one bid was subsequently withdrawn when the bidder was unable to obtain lender approval. Negotiations with OCL, the remaining bidder, resulted in an amendment which terminates the last ten years of the Contract in exchange for payment to OCL of $49,405,000 over a period of five years. FPC filed a petition for approval of the Contract Amendment on October 1, 1996. FPC requested that cost recovery of the early termination payments be implemented through the Capacity Cost Recovery Clause beginning in April, 1997. FPC also requested that the rate impact to residential customers be mitigated by crediting the Energy Conservation Cost Recovery Clause with the 1995 revenue decoupling over-recovery balance plus accumulated interest.

By Proposed Agency Action Order No. PSC-97-0086-FOF-EQ, issued January 27, 1997, the Commission denied FPC's petition for approval of the early termination Amendment to its contract with OCL. On February 17, 1997, FPC timely filed its Petition on Proposed Agency Action to protest Order No. PSC-97-0086-FOF-EQ. The Commission granted intervenor status to OCL and acknowledged the Office of Public Counsel (OPC) as an intervenor. An evidentiary hearing was held on October 30 and 31, 1997. FPC, OCL and OPC participated in the hearing and filed post-hearing briefs. Staff presented testimony at the hearing.

DISCUSSION OF ISSUES

ISSUE 1: Are the economic risks associated with the projected ratepayer savings resulting from the Amendment to the Negotiated Contract between Florida Power Corporation and Orlando Cogen Limited, Ltd., reasonable?

PRIMARY RECOMMENDATION: Yes. FPC's most recent estimate of the net present value (NPV) of benefits from the proposed OCL contract buyout is $32.4 million. FPC's estimate of the benefits may be overstated, but the benefits appear to remain positive when analyzed under a variety of pessimistic and optimistic economic scenarios. Therefore, the risks associated with the expected benefits from the proposed buyout are reasonable. [HARLOW, TEW]

ALTERNATIVE RECOMMENDATION: No. FPC's basis for requesting approval of the OCL buyout relies on inappropriate economic and financial assumptions. Furthermore, even when one uses reasonable assumptions, the buyout results in only $0.8 million of savings under a base-case analysis and requires customers to wait more than 20 years to see a positive benefit. [DUDLEY, NORIEGA]

POSITIONS OF PARTIES

FPC: Yes. Every sensitivity study presented to the Commission using an appropriate discount rate (FPC's incremental cost of capital), even Mr. Stallcup's most pessimistic case, produces positive net present value savings from the buyout. The Commission should reject the unprecedented use of novel, untested discount rates in evaluating the benefits of the buyout.

OCL: Yes. The modification avoids the extremely expensive last ten years of the contract which were calculated using the value of deferral method based on an avoided coal unit. The modification is cost effective using the consistent discount rate required by Rule for comparison to FPC's avoided cost even assuming the simultaneous occurrence of the worst possible expected economic conditions postulated by Mr. Stallcup.

OPC: No. Risks that regulation will not be available to flow back savings, that savings are too far in the future, that customers will leave before seeing savings, that the discount rate is inappropriate, that projections are inaccurate, that costs will not be offset by savings, and others, are all unreasonable.

PRIMARY STAFF ANALYSIS: According to FPC's most current analysis, buying out the last ten years of the OCL contract will save FPC and its customers $32.4 million net present value (NPV) relative to what they would have paid with the contract's full thirty-year term in effect. This was calculated by comparing the cost of retaining the contract (Contract Case) to the cost of the buyout payments plus the projected replacement power costs (Replacement Case). In the Contract Case, capacity payments are specified in the contract, and energy payments are based on FPC's coal forecast. The Replacement Case includes the $49.4 million in buyout payments in the years 1997 through 2001, as well as FPC's projected cost of replacing the contract with capacity and energy from a gas-fired combined-cycle generating unit during the years 2014-2023. According to FPC's calculations, in nominal terms, the Contract Case produces costs of $703.3 million, while the estimated Replacement Case costs, including the buyout payments, total $233.2 million. This represents a savings of $470.1 million or a NPV of $32.4 million when discounted by FPC's after-tax weighted average cost-of-capital of 8.81 percent.(EXH 4, p. 18-22) FPC's NPV analysis is attached to the recommendation as Attachment A.

An analysis of the risks associated with the expected benefits must begin with a discussion of whether the assumptions made by FPC are appropriate. The robustness of the expected benefits should then be subjected to a balanced sensitivity test, which varies the assumptions according to pessimistic and optimistic outlooks.

APPROPRIATENESS OF ASSUMPTIONS

The three primary assumptions in FPC's NPV analysis discussed at the hearing were the discount rate, the fuel forecasts and the capital cost escalation rate. Each will be discussed below.

Discount Rate

FPC used its after-tax marginal cost-of-capital, 8.81 percent, as the discount rate in the most current NPV analysis. (EXH 4, p. 22) Staff believes this is an appropriate discount rate for FPC to use. It is important to note that any discount rate methodology is only a proxy for actual future interest rates and the type of financing chosen for a particular project. Any discount rate methodology therefore has its shortcomings. However, the after-tax marginal cost-of-capital is the discount rate commonly used by this Commission in the approval of long-term decisions, including cogeneration contract approvals, need determinations and demand-side management programs. Rule 25-17.0832, Florida Administrative Code, applies the utility's after-tax marginal cost-of-capital in discounting the avoided cost in the original approval of cogen contracts. Rule 25-17.0836(6), F.A.C., requires that cogeneration contract amendments must be "evaluated against both the existing contract and the current value of the purchasing utility's avoided cost." Staff agrees with OCL that when reading these rules together, it appears that the proper way to measure the utility's avoided costs is by using the utility's after-tax marginal cost-of-capital as the discount rate. However, this does not preclude the Commission from using other discount rate methodologies as sensitivity tests in analyzing the proposed buyout.

OPC witness Larkin stated that the consumer's cost of debt is a more appropriate discount rate because the buyout would be funded by ratepayers through a cost recovery clause. (TR 233) Witness Larkin assumed a 13 to 18 percent cost of unsecured consumer debt and therefore assumed that ratepayers would require at least a 13 percent rate of return to accept the buyout. (TR 325) Witness Larkin did not obtain unsecured debt rates for consumers within FPC's territory. (TR 326) Staff believes that the difficulty in applying OPC's discount rate methodology is in determining the appropriate consumer discount rate.

Staff witness Stallcup used a risk-adjusted discount methodology in analyzing the buyout. The risk-adjusted discount methodology accounts for differing levels of risk associated with the cost and income streams in a project by adjusting those streams by different risk premiums. (TR 353-354) FPC argued that witness Stallcup did not perform the analysis correctly because the risk premiums were subtracted, rather than added, to the cost streams. (TR 502) Staff believes, however, that the difficulty in using the risk-adjusted discount methodology is not applying the mathematics, but selecting the assumption that must be used to develop the risk premiums. In developing the risk premiums, witness Stallcup assumed that the capacity payments associated with the replacement plant would have the same level of risk as FPC's business as a whole. (TR 355) It is difficult to determine the reasonableness of this assumption.

For the reasons cited above, staff believes that FPC's after-tax marginal cost-of-capital is the appropriate discount rate. Using this discount rate (8.81 percent), FPC found the NPV of the buyout to be $32.4 million. (EXH 4, p. 18) Staff believes this may be somewhat overstated. This will be discussed further below.

Staff also believes that the discount rate methodologies submitted by witness Larkin and witness Stallcup have merit and may therefore be used as sensitivity tests of the expected benefits. Under a base case scenario, the benefits of the buyout come close to passing witness Larkin's discount rate test and pass the discount rate methodology proposed by staff witness Stallcup. While witness Larkin found the NPV of the buyout to be slightly negative when applying a 13 percent consumer discount rate, he stated that, given FPC's assumptions, the buyout would provide ratepayers with approximately a 12.9 percent rate of return. (TR 324) Using the risk-adjusted discount methodology, witness Stallcup found the NPV of the buyout to be $24.1 million under a base case scenario which used fuel forecasts and inflation assumptions obtained from Data Resources Incorporated (DRI). (EXH 13)

Fuel Prices

Fuel prices are a major determinant of the expected benefits of the buyout. The lower the gas forecast relative to coal, the higher the expected benefits. Staff compared FPC's fuel forecasts to those submitted by other Florida utilities in the ten-year site plans. FPC expressed concern about the methodology used by witness Stallcup to expand FPC's fuel forecast and the ten-year site plan fuel forecasts of other Florida utilities beyond ten-years in order to compare the forecasts. (TR 55-56) However, the gas price forecasts do not have to be expanded to thirty years to show that beyond 2002, FPC's gas forecast is low relative to most of the forecasts submitted by the other Florida utilities. It is clear that beyond 2002, only one of the gas forecasts submitted by the Florida utilities in the ten-year site plans is lower than FPC's gas forecast.(EXH 12)

Staff agrees with FPC witness Schuster that fuel forecasts from a reputable outside source may be used to test the reasonableness of forecast assumptions. (TR 473) Staff compared FPC's fuel forecasts to fuel forecasts calculated using fuel price escalation rates obtained from DRI. While FPC's gas forecast is relatively low compared to DRI's gas forecast, the benefits remain highly positive at $19.9 million, using DRI's base case fuel forecasts and FPC's after-tax marginal cost-of-capital as the discount rate. (TR 351)

Staff acknowledges the point made by alternative staff that the demand for natural gas may increase, which could lead to higher gas prices in the future. However, staff notes that the known or proven supply of natural gas may also increase over time due to technological improvements. If so, increased supply will tend to mitigate the effect of increased demand on the price of natural gas.

As a sensitivity, staff reviewed the effect of using a constant gas-coal price differential as a component of the NPV calculation. Staff found that the benefits of the proposed OCL contract buyout would be greater if this methodology is employed. Based on the above, the FPC fuel forecast appears to be reasonable.

Capital Cost Projections

The final primary assumption used in the NPV analysis is the inflation assumption, or price index, used to escalate the capacity costs of the replacement plant. Staff believes the $32.4 million benefits of the buyout may be overstated due to the price index used in FPC's most current analysis. (EXH 4, pp. 18-22) FPC used the GDP Fixed Investment Durable Equipment price index in escalating the replacement plant capacity costs, which averaged 0.5 percent over the life of the contract. (TR 154) FPC used a different price index in the analysis filed with the original petition, which averaged approximately 3 percent. (TR 149) Witness Schuster stated that the price index was changed to a more appropriate index and that the simple passage of time would change the value of the index used in the original analysis. (TR 151)

Staff disagrees with FPC witness Schuster that the index used in FPC's current analysis is appropriate. The GDP Fixed Investment Durable Equipment price index includes automobiles, office equipment and other items. The index estimates a low inflationary effect because it includes computer costs, which have been declining drastically in recent years. (TR 157) Staff believes it is more appropriate to use either the 'Other' or 'Public Utilities' subcategories of the GDP Fixed Investment price index to escalate the capital costs of the replacement plant. These indices average 2.3 percent and 2.7 percent over the life of the contract, respectively. (EXH 5) FPC witness Schuster testified that the 'Other' GDP Fixed Investment price index subcategory includes expenditures for the types of machinery that would be found in a combined-cycle power plant. Witness Schuster also stated that it would have been an option to use this index in the analysis. (TR 157) Staff witness Stallcup found that the NPV of the buyout is reduced from $32.4 million to $28.0 million if the replacement plant costs are escalated by 2.7 percent rather than the 0.5 percent escalation used by FPC. (TR 352)

ROBUSTNESS OF THE BENEFITS

Staff agrees with FPC that a balanced sensitivity analysis should be used to test the robustness of the benefits. This recognizes that while there is a risk that the benefits will be lower than expected, the opposite may also occur. Updated sensitivity tests using the Company's most current fuel forecast are not in the record. However, FPC's sensitivity tests using a high and low band gas forecast from 1996 showed that the expected savings ranged from $24.1 million to $35.8 million. (EXH 1)

Staff tested the robustness of the benefits by replacing FPC's fuel forecasts and inflation assumptions with data obtained from DRI. FPC witness Schuster agreed that it is appropriate to perform sensitivities with an outside data source as a sanity check. (TR 473) Using an outside data source removes the possibility of any bias by FPC in the NPV analysis. OCL provided an exhibit which showed that, using FPC's after-tax marginal cost-of-capital, 8.81 percent, as a discount rate, DRI's pessimistic fuel prices and DRI's high inflation projections, the expected benefits remain positive at $5.8 million. (EXH 16) Using the 8.81 percent discount rate, DRI's optimistic fuel prices and DRI's low inflation projections, staff calculated the expected benefits to be $22.5 million. The following table displays FPC's and staff's sensitivities.

SENSITIVITY	ASSUMPTIONS	NET PRESENT VALUE WITH 8.81 % DISCOUNT RATE (Millions $)
FPC-Optimistic	FPC's Low Fuel, Base Inflation	$35.8
FPC-Base Case	FPC's Base Fuel, Base Inflation	$32.4
FPC-Pessimistic	FPC's High Fuel, Base Inflation	$24.1
DRI-Optimistic	DRI's Low Fuel, Low Inflation	$22.5
DRI-Base	DRI's Base Fuel, Base Inflation	$19.9
DRI-Pessimistic	DRI's High Fuel, High Inflation	$5.8

It is also helpful to view the buyout as a ratepayer investment and determine the return provided by that investment. When viewed as an investment, FPC estimated that the after-tax return is 12.19 percent. (EXH 4, p. 1) This is analogous to approximately a 15 percent rate of return before taxes. Therefore, to be better off, ratepayers would have to invest in a project with a before-tax return higher than 15 percent. Staff believes this return may be overstated. However, OCL provided an exhibit which showed that using DRI pessimistic fuel and high inflation assumptions, the buyout provided a 9.2 percent return. (TR 455)

Staff recognizes that, as with any analysis based on long-term forecasts, there is a risk that the predicted savings will not materialize. However, it is important to recognize that the savings from the proposed buyout could also be greater than predicted. Buying out the last ten years of the contract will increase FPC's flexibility in meeting customer needs in the future. This will allow FPC to take advantage of cost reductions due to technological improvements or increased competition. Cost reductions may also be achieved due to increased flexibility in the timing of replacing the contract's capacity and energy. For example, if the replacement power is not needed in the first year of the buyout, the benefits of the buyout will increase. The benefits will also increase if only the energy is replaced, rather than both capacity and energy.

In conclusion, FPC's estimate of the benefits associated with the proposed buyout may be overstated. However, the expected benefits appear to be highly positive, even when an outside source is used for fuel forecasts and a more appropriate inflation assumption is used. Further, the expected benefits appear to be positive under a variety of economic scenarios. Finally, the buyout provides an adequate return on ratepayer dollars. Therefore, staff concludes that the risks associated with the expected benefits from the proposed buyout are reasonable.

POSITIONS OF THE PARTIES

Staff agrees with FPC's position that every sensitivity study using the Company's after-tax marginal cost-of-capital as the discount rate shows that the expected benefits of the buyout are positive. Even replacing FPC's fuel and inflation assumptions with DRI's pessimistic outlook resulted in an expected NPV of $5.8 million. (EXH 16) Staff disagrees with FPC that the Commission should reject the use of discount methodologies other than the Company's after-tax marginal cost-of-capital in evaluating the buyout. The discount rate methodologies proposed by witnesses Larkin and Stallcup provide additional information about the benefits of the proposed buyout and may be used as sensitivity tests. Staff notes that neither the discount rate methodology proposed by witness Larkin or witness Stallcup prove that the risks associated with the benefits of the buyout are unreasonable.

Staff also agrees with OCL's position that modification of the contract avoids the most expensive portion of a relatively expensive contract. Also, under the discount rate methodology consistently used by the Commission and implied by the Commission's rules, the buyout appears to be cost-effective.

Staff disagrees with OPC's position that the risks of the expected benefits are unreasonable. OPC believes that there are risks associated with the projections in the NPV analysis. Staff agrees that there are risks due to these projections. However, any long-term decision involves projections, and the expected benefits appear to be positive under a variety of fuel price and inflation scenarios. OPC also expressed concern that the discount rate methodology used in FPC's analysis may be inappropriate. However, the expected benefits appear to pass the discount rate methodologies proposed by FPC and Staff witness Stallcup, and come close to passing the 13 percent return proposed by OPC witness Larkin. Finally, OPC believes there are risks inherent in the expected benefits because regulation will not be available to flow back savings at the time of the buyout. However, it is not necessary for regulation to be in place in its current form during the buyout years for ratepayers to receive the benefits. Staff believes that even under deregulation, utilities will be allowed recovery of the costs associated with PURPA cogeneration contracts. Therefore ratepayers would have to pay the costs of the OCL contract through some type of regulatory mechanism, such as exit fees. (TR 189-190) Buying out the most expensive years of the contract today will relieve ratepayers of this obligation in the future.

ALTERNATIVE STAFF ANALYSIS: As OCL points out in its brief, FPC reasonably expects that the contract modification will provide substantial, consistent savings to customers with an ultimate savings of nearly ten times the early termination payments. (OCL BR 18) However, the Commission should be reminded that FPC also reasonably expected that the original contract would remain cost-effective over the entire life of the thirty-year contract. (TR 81) As confirmed by witness Schuster the contract is no longer cost-effective just six years after it was signed, citing changes in fuel prices and technology as the root cause. (TR 83-84, 94) FPC is now asking the Commission to approve a proposal to charge its customers $49.4 million over the next five years so that it can terminate the last ten years of the OCL negotiated contract.

Based on its most recent fuel and capital cost forecasts, FPC believes that replacement power will cost far less than the current contract to the extent that customers will realize over $30 million NPV of savings. Once again, the foundation for these savings resides with the very same type of fuel and technology price projections which resulted in a thirty-year contract becoming non-cost-effective six years after approval. Both witnesses Schuster and Larkin agreed that no one can forecast anything, much less fuel prices, accurately out into the future. (TR 83, 231)

FPC's proposal provides no guarantee of benefits, even for today's ratepayers who remain customers through 2023. (TR 97, 518)

Alternative staff agrees with OPC, that it is certainly more probable that FPC will still be selling electricity in Florida 26 years from now than it is that today's customers will still be FPC's customers. (OPC BR 2)

Alternative staff disagrees with FPC's use of several financial and economic elements in its cost-effectiveness analysis of the OCL buyout. The following sections address these elements of FPC's analysis and include recommendations concerning FPC's fuel price escalation rates, its capital cost escalation rates, and its financial assumptions. Each section provides a discussion of the reasons alternative staff believes FPC's assumptions are inappropriate as well as what alternative staff considers to be an appropriate refinement.

Fuel Prices

In hopes of attracting cogeneration capacity within a short time frame to meet a 1991 need during the annual planning hearings, FPC included a 1997 combustion turbine unit as its avoided unit for its standard offer contract, providing justification in part based on the following discussion:

> The coal unit was added as an option because on a NPV basis, the coal unit costs less than the CT unit. While this may sound like a good choice, the coal unit does not become cost effective until the last few years of a thirty year analysis. FPC, therefore, chose to include CT capacity in 1997 in its facility plan in order to **avoid the risk of reliance on latter year fuel savings to justify a project.**[1]

Emphasis added. However, FPC's current proposal digresses from the previously followed policy and turns back to relying on latter year fuel price projections to justify projected savings.

Witness Schuster characterized the ability to forecast fuel prices as the "major uncertainty that remains in the analysis." (TR

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[1] See, e.g., In re Planning Hearings on Load Forecasts, Generation Expansion Plans, and Cogeneration Prices for Florida's Electric Utilities, Docket No. 910004-EU, Order No. 24989, issued August 29, 1991, page 16.

96) FPC projects that the delivered price of natural gas will increase from \$3.23/MMBtu in 1997 to \$4.09/MMBtu in 2023, or only a one percent yearly increase. (TR 137; EXH 4) These prices are of importance in that FPC has projected replacement capacity and energy costs based upon a natural gas-fired combined-cycle unit.

Though FPC has projected minimal escalation of natural gas prices, witness Schuster recognized the recent volatility in the natural gas market during the last couple of years with "price spikes" that were "over \$3 a million Btu." (TR 145, 479) He cited two views of these recent trends. One is the belief that it is the beginning of a new upwards price trend. The other view is that it is simply an anomaly that will pass. Apparently, FPC has chosen to agree with the second view as it has kept its projected gas prices relatively flat through 2023, incorporating only a one percent growth rate. (TR 137; EXH 4) Moreover, the fuel price forecast used by FPC to determine the cost-effectiveness of the OCL buyout is even lower than DRI's "optimistic" scenario of natural gas prices. (TR 461; EXH 13) Alternative staff does not consider FPC's approach to be very conservative.

It would seem that given recent history and the two schools of thought, an appropriate analysis would assume a trend that accounts for both views as opposed to endorsing the most favorable option. It would also seem that the recent volatility may well be indicative of basic economics. With their recent technological gains, gas-fired combined-cycle units are beginning to dominate new generation across the entire nation. Accordingly, natural gas is becoming more desirable and could very likely become a more expensive commodity. In fact, it appears that FPC's recent gas price forecasts are indicative of this trend. Since its initial fuel price forecast in this proceeding, FPC increased its forecasted 1997 natural gas supply price 28 percent. (TR 145; EXH 4)

To ensure continued cost-effectiveness, FPC should base its analysis on a more conservative, higher growth rate natural gas price forecast. Alternative staff agrees with witness Stallcup that FPC should use the DRI natural gas price escalators. These escalators are provided by a widely-accepted, independent, and reasonable source of information used by this Commission during past cost recovery proceedings. Moreover, DRI's escalation rates appear to account for not only the recent market volatility, but also for past performance as well. Furthermore, these rates result in natural gas prices that more closely conform to forecasts based on those of other Florida utilities. (TR 350) Each of these short-term forecasts was extended by witness Stallcup out to the year 2023, the existing contract term, using the last year's escalation rate. This methodology does not appear to be unlike the way FPC produces long-term reliability studies. FPC's normal projections are generally only for ten years. However, as witness Schuster attested, "Occasionally we go out beyond ten years, but in all honesty, the only thing you can do out in that extended time frame is to assume a continuation of trends." (TR 553)

Capital Cost Projections

As part of its cost-effectiveness analysis, FPC projected the cost of replacing the contract capacity based on the cost of a combined-cycle unit each year. These yearly cost projections were then converted to a fixed charge rate expressed as $/kW-month. In its original filing, FPC projected the capacity cost of a combined-cycle generating unit using an escalation rate that recognized what FPC's Power Marketing Department believed was a currently depressed price. (EXH 6; TR 164) This rate increased today's price by an average of three percent per year throughout the entire planning horizon. (EXH 1, 4; TR 150, 166) Additionally, FPC's Power Marketing Department included a 15 percent increase in the year 2004 as part of the necessary deflated price correction. (EXH 4; TR 166) However, since that original filing, FPC has revised its capital cost escalation rates to reflect less than a 0.5 percent increase per year based on the GDP Fixed Investment, Producer's Durable Equipment price index. (EXH 4, 9; TR 149) This results in a beneficial reduction, from a cost-effectiveness standpoint, of the replacement capacity cost in the year 2023 of over 41 percent.

Witness Schuster justified the change in capital cost escalation rates as moving from a generic index that was used for the generation cost forecast in 1996 to a more specific and more appropriate index that he selected specifically to be applied to the OCL buyout. (TR 151, 156) The "more specific" index chosen by witness Schuster is entitled GDP Fixed Investment, Producers Durable Equipment. (TR 151, 156, 351; EXH 4, 9) This index is composed of three subcategories: Automobiles, Office equipment, and Other. (TR 156, 351) Although not used by witness Schuster, he agreed that it would be an option to use the specific escalation rates for the 'Other' subcategory from the GDP Fixed Investment, Producers Durable Equipment price index to produce a finer level of detail. (TR 158; EXH 6) Alternative staff agrees with witness

Schuster that this index contains costs for the types of machinery used to build a combined-cycle power plant. (TR 157-158)

Witness Stallcup suggested that DRI's GDP Fixed Investment, Public Utilities Structures price index is the appropriate index to use when projecting the capital costs for a combined-cycle generating unit. This index is designed to measure changes in the cost of building electrical generation facilities, telecommunication facilities, and other types of public utility structures. (TR 351)

Alternative staff believes that the 'Other' subcategory price index is more appropriate than either the index suggested by witness Stallcup or by FPC. Unfortunately, optimistic and pessimistic versions of the 'Other' subcategory price index were not made part of the record. However, optimistic and pessimistic version of the Public Utilities Structures price index are part of the record. Alternative staff notes that using the base-case versions of the 'Other' subcategory price index or the Public Utilities Structures price index results in only a $0.7 million NPV difference. Therefore, alternative staff believes that the Public Utilities Structures price index will produce reasonable sensitivities for judging the economic risks of the OCL buyout.

Lastly, an additional component of the capital cost projections is the levelized fixed charge rate. This fixed charge rate is used to convert the yearly combined-cycle capital cost projections into what would be the price for the capacity charge from that type of capacity. (TR 148) In its analysis, FPC used a levelized fixed charge rate based on an assumed Debt/Equity ratio of 50/50. However, FPC's Debt/Equity ratio has progressed to a 42/58 ratio and has been significantly different than a 50/50 mix over the last couple of years. (EXH 8; TR 178) Alternative staff believes that FPC should have used levelized fixed charge rates that are reflective of FPC's actual Debt/Equity mixture as the Company's financial history is not new information.

Discount Rate

FPC used its current after-tax cost of capital, 8.81 percent, as a proxy for the customer's discount rate, although FPC recognized that it does not know what the true customer cost-of-capital or discount rate should be. (TR 112, 487) Witness Larkin inquired at a bank and concluded that an interest rate between 13 and 18 percent, applicable to an unsecured loan or credit card, is a reasonable approximation of customer return requirements. (TR 233) Witness Stallcup believes that the discount rate should reflect the risk being taken by the ratepayer. (TR 365) Alternative staff agrees with both witnesses Larkin and Stallcup. Alternative staff, however, also agrees with FPC that a rate close to its cost-of-capital rate is probably reflective of the opportunity more commonly lost due to ratepayers funding the transaction. Nonetheless, under the current proposal, the discount rate should be indicative of alternative opportunities available to FPC's ratepayers akin to an investment opportunity. (TR 361, 364)

FPC has proposed to recover the cost of the OCL buyout by collecting additional revenues from ratepayers through the adjustment clauses. (TR 186) It has not proposed to issue any long-term debt or incur any associated interest expense. (TR 186, 352) Since no debt will be issued to finance the buyout, alternative staff agrees with witness Larkin that it would not be appropriate to deduct a debt tax component from FPC's composite cost-of-capital discount rate. (TR 336-337) Therefore, alternative staff believes that FPC's before-tax cost-of-capital would be more appropriate as a proxy for the customer's discount rate in this instance. Adjusting nothing more than FPC's discount rate to reflect a pre-tax form equal to 10.2 percent, the NPV savings of the buyout would fall to roughly half the amount projected by FPC.

Exhibit No. 9 provides updated fixed charge rate projections to reflect FPC's current Debt/Equity ratio of 42/58. The revised fixed charge rate calculations rely in part on FPC's financial cost projections throughout the entire planning horizon, including both the cost of debt and the cost of equity. By the nature of the calculation, FPC's projected yearly weighted average before-tax and after-tax cost-of-capital is also calculated. (EXH 9) Alternative staff believes that it would be more appropriate to use these yearly cost-of-capital rates to discount each year's costs/benefits of the OCL buyout proposal. In this manner, the analysis will recognize the actual yearly value of money based on the year in which it is realized. Using a single-value discount rate is reflective of two ideas, 1) the status of the financial markets remains unchanged, and 2) the fluctuations of the cost of money average out over time to the stated value. It is unnecessary to rely on either of these two beliefs when possessing yearly projections of FPC's capital structure and the projected cost of debt and equity that go out beyond the current planning horizon.

Witness Stallcup suggested that the NPV of the OCL buyout should be determined using a "risk-adjusted" discount rate (RADR). (TR 353) Alternative staff recognizes the merit of witness Stallcup's proposal as a tool that isolates the reasonable opportunity cost to ratepayers if they were to invest rather than finance the OCL buyout. This RADR methodology attempts to apply a discount rate which reflects the level of risk associated with each cost component involved. Although alternative staff agrees that witness Stallcup's methodology moves the NPV savings of the transaction in a direction that is consistent with the level of risk, staff is not completely satisfied that the methodology will be appropriate to use in all instances.

Conclusion

Based on the preceding discussion, alternative staff believes that FPC's analysis would have been more appropriate had it made use of the 'Other' subcategory of DRI's Producers Durable Equipment Price index, DRI's fuel price escalation rates, and FPC's revised fixed charge rates and before-tax cost-of-capital forecast. Accounting for these changes, the OCL buyout is projected to result in only $0.8 million NPV of savings over the course of the next 26 years. Alternative staff agrees with the primary recommendation and FPC that a balanced sensitivity analysis should be used to test the robustness of the benefits. These analyses should use the optimistic and pessimistic versions of the assumptions mentioned above. Under these scenarios, the expected NPV savings ranged from $5.7 million to ($8.3) million. Thus, under a balanced sensitivity analysis, it seems that the economics suggest that FPC's ratepayers run a greater risk of not being compensated for their investment.

Witness Schuster maintained that it would take as much as $20 million NPV of savings under a reasonable base-case analysis to provide certainty that the transaction could be labeled as a particularly good deal for either FPC or its customers and that below $10 million NPV it would not provide that certainty. (TR 193-194) Recognizing the uncertainty of both the financial world and fossil fuel prices over the next 26 years and realizing that the original contract, no longer cost-effective, was also projected to result in approximately $1 million NPV of savings[2], alternative

[2] Order No. 24734, issued July 1, 1991, page 13, Contract with Orlando Cogen Limited was projected to result in $1,012,795

staff recommends that the economic risks associated with the OCL buyout are unreasonable. Furthermore, using FPC's own witness' threshold as a guideline, it would appear that witness Schuster also finds such risks unreasonable.

NPV of savings.

ISSUE 2: Are the intergenerational inequities among Florida Power Corporation's ratepayers, if any, associated with the Amendment to the Negotiated Contract between Florida Power Corporation and Orlando Cogen Limited, Ltd., reasonable?

PRIMARY RECOMMENDATION: Yes. The intergenerational inequities are reasonable given the expected benefits. As discussed in Issue 1, these benefits appear to be positive under a variety of sensitivities. In addition, ratepayers in the early years of the contract have already benefitted at the expense of ratepayers in the future. The proposed buyout mitigates this existing inequity to some degree. [HARLOW]

ALTERNATIVE RECOMMENDATION: No. When the effects of the buyout are appropriately compared to the existing contract, pursuant to Rule 25-17.0836(6), F.A.C., the buyout results in unreasonable intergenerational inequities. [DUDLEY, MCNULTY]

POSITIONS OF PARTIES

FPC: There is no intergenerational inequity associated with the OCL contract amendment. To the contrary, the amendment helps to mitigate the intergenerational inequity created when the original OCL contract was approved, which shifted enormous costs away from current customers, at the expense of future customers. Even when the costs of the buyout have been completely recovered, current customers still will have paid less under the OCL contract than they would have paid if the unit avoided by the contract had been built. Moreover, the Commission has never attempted to objectively define intergenerational fairness and has, in fact, frequently approved generating alternatives that shift substantial costs to current customers, as well as others, like the original OCL contract, that shift disproportionate costs to future customers. The shifting of costs associated with the OCL buyout is well within this range that the Commission has previously approved.

OCL: Yes. The modification is fair. Generating alternatives must be considered based on long-term economics. The Commission's Rules provide for comparison of the long-term economics of generating alternatives and thereby protect the long-term interests of all customers. The modification is cost-effective. The Rules recognize no other standard for intergenerational equity.

OPC: No. FPC did not represent the 1991 OCL contract as containing intergenerational inequities, nor was it approved with that understanding by the Commission. The buyout cannot, therefore, mitigate nonexistent inequities. The buyout, however, will impose costs on today's customers so that either future customers or FPC will reap the benefits.

PRIMARY STAFF ANALYSIS: Determining whether a proposal has unreasonable intergenerational inequity involves an analysis of the magnitude and certainty of the expected benefits, as well as the payback period. In its proposed form, the OCL buyout involves ratepayer payments of $49.4 million over the next five years in exchange for an estimated $470.1 million in benefits, beginning in year 2014. As discussed in Issue 1, FPC currently estimates the NPV of these benefits at $32.4 million. Staff found these benefits to remain positive under a variety of sensitivities. Staff also notes that the risks associated with the benefits of the buyout may be lower than for some other long-term decisions, because the buyout relieves the obligation to pay known capacity costs. This is less speculative than benefits associated with long-term decisions which are primarily based on fuel savings, such as the comparison of a coal plant to a gas-fired plant.

As discussed in Issue 3, staff acknowledges that the payback period on these benefits, which is estimated to be twenty-two years, is relatively long. (TR 30-32; EXH 4) However, staff believes that the magnitude of the benefits associated with the proposed buyout outweighs any resulting inequities. As discussed in the primary recommendation in Issue 1, staff believes the risks associated with these benefits are reasonable.

Staff also agrees with FPC that the proposed buyout mitigates existing inequity under the current contract to some degree. QF contracts are long-term contracts, with terms ranging from twenty to thirty years. Any QF contract priced with the value-of-deferral methodology, such as the OCL contract, has the highest capacity payments in the last years of the contract. Therefore, the greatest possible benefits from buying out such QF contracts exist in the last years of the contract. The capacity costs specified by the OCL contract are escalated at a rate of 5.1 percent per year, higher than expected inflation. (EXH 4) Therefore, under the existing contract, ratepayers in the early years of the contract benefit at the expense of ratepayers in the future. Staff disagrees with OPC that there are no inequities associated with the existing contract. It is clear from the capacity payment stream of the existing contract that ratepayers in the early years of the contract pay lower capacity costs relative to future ratepayers. (EXH 4) Staff does not imply that these inequities are unreasonable by acknowledging their existence.

Staff does agree with OPC that many of the actual ratepayers who pay the buyout costs may no longer be on the system at the time that the benefits occur. However, this is true of any long-term decision approved by the Commission for which the costs are not evenly distributed. For example, the cost and benefit stream of the OCL contract buyout is similar to that for a typical demand-side management (DSM) program. DSM programs involve an up-front cost passed directly to ratepayers through a cost recovery clause. However, the benefits of DSM programs for the general body of ratepayers (deferred generation capacity) may be many years in the future. The opposite may also be true. Today's ratepayers may be benefiting by costs borne in the past by other ratepayers. For example, under traditional regulatory practices, plant costs in rate base decrease over time as the plant is depreciated. Today's ratepayers may be benefiting from higher plant costs borne by ratepayers in the past.

Staff agrees with OCL that the Commission's rules protect the long-term interests of ratepayers by providing for a comparison of the long-term economics of generating alternatives. The Commission considers the intergenerational inequity of a transaction under its statutory mandate in Section 366.041, Florida Statutes, to ensure that rates and charges recovered for ratepayers are "just, reasonable, and compensatory."

In conclusion, the intergenerational inequities associated with the OCL contract buyout are reasonable. Staff believes that the magnitude of the expected benefits outweighs any intergenerational inequity associated with the buyout. Further, the proposed buyout serves to mitigate inequities associated with the existing contract. Finally, similar to the proposed buyout, any long-term decision approved by the Commission may cause costs for a particular ratepayer who may not remain on the system to receive the benefits. However, staff believes that intergenerational fairness involves more than a guarantee that the actual ratepayer who paid the costs for a particular project receives the benefits; it involves providing just and reasonable rates over the long-term. Minimizing rates over the long-term provides the highest assurance that the general body of ratepayers will benefit.

ALTERNATIVE STAFF ANALYSIS: Intergenerational fairness is generally agreed to involve ensuring that costs befalling one generation of customers are matched with achievable benefits. (TR 192, 262, 267) However, as indicated by witness Schuster, the costs of the buyout are not being recovered consistent with the time period within which the benefits accrue as the buyout is currently structured. (TR 192) Witness Schuster recognized that intergenerational inequities would be reduced if the buyout costs were recovered over a longer period than the proposed five year period. (TR 208)

Pursuant to Section 366.041, Florida Statutes, the Commission must ensure that rates and charges recovered from ratepayers are "just, reasonable, and compensatory." This Commission has consistently addressed this requirement while attempting to balance the risks and benefits between utilities and their ratepayers. Alternative staff believes that FPC's proposal is a poor attempt at achieving this goal to the extent that FPC is willing to place the entire burden upon today's ratepayers. Under the current proposal, FPC concedes that its ratepayers are assuming all financial risks involved in the proposed transaction. (TR 219) Moreover, when presenting the proposal to the Commission for approval, FPC mentioned and has continued to stress that with respect to the timing, the OCL buyout is not ideal. (TR 195) In fact, FPC negotiated with OCL to increase the number of buyout years from the initially proposed five years to a ten year buyout in an effort to create customer savings sooner. (TR 64, 205)

FPC compared the intergenerational affect of the proposed buyout to the hypothetical ratepayer affects of the "avoided unit". (TR 62, 223, 491; EXH 1, 11) Alternative staff agrees with witness Stallcup that this comparison is inappropriate. (TR 459) According to Rule 25-17.0836(6), F.A.C., the correct comparison is between the effects of the buyout versus the existing contract and the current avoided cost. The rule does not speak to a comparison with "what if" retroactive type scenarios. Furthermore, it is the existing contract that FPC's ratepayers are and will continue to be committed to for the next 26 years. Comparing the buyout to the existing contract yields that FPC is asking for Commission approval of a proposal that requires its ratepayers to support potentially unnecessary expenditures over the next five years in hopes of receiving positive cumulative net benefits 22 years down the road. (TR 32-34, 102, 134, 222, 235; EXH 2) This requires FPC's customers to be subjected to unreasonable intergenerational inequities.

When compared to the regulatory treatment afforded DSM programs and generating plant costs, the primary recommendation suggests that the OCL buyout is similar from an intergenerational fairness standpoint. However, primary staff does not mention that DSM programs generally provide near-term benefits and are continually reviewed for cost-effectiveness. At such time that a DSM program may become non-cost-effective, it is either terminated or modified to renew its cost-effectiveness. The OCL buyout does not include a clause for ongoing review. In its comparison to plant costs in a utility's rate base, the primary recommendation suggests that since these costs depreciate over time, some customers are benefitting from the investment of others. Once again, primary staff does not mention that unless the utility's rates are changed customers do not see a benefit from the reduction in depreciable plant.

FPC, OCL, and the primary recommendation all suggest that the value-of-deferral methodology used in the original OCL contract shifted a disproportionate amount of costs to today's customers. This shifting, they believe, resulted in intergenerational inequities. Alternative staff disagrees with this conclusion. Value-of-deferral payments were designed to provide an incentive to suppliers to supply their power and keep their capacity in place over the life of the contract. (TR 197, 236, 492, 524) Additionally, as acknowledged by OCL, the deferral method pays the QF only what it earns in any given year, the value of an annual deferral. (OCL BR 24) Though not by design, value-of-deferral payments, in real terms, provide a better matching of the level of costs paid by today's ratepayers to those made by future ratepayers than does the traditional revenue requirements method of recovery. (TR 197-198) Furthermore, alternative staff agrees with witness Larkin's analogy that the level of payments are reflective of the level of risk. (TR 236) Thus when the risk of non-performance is high in the early years, ratepayer's payments are low. However, in the later years when nonperformance risks are low, ratepayer's payments become larger. Witness Schuster indicated that at the time the contract was first entered into, FPC perceived a risk of non-performance on the part of OCL. (TR 524-525)

Recent QF Buyouts

Alternative staff has also reviewed recent Commission decisions concerning QF buyouts and their respective intergenerational impacts. In order to form a basis of comparison, alternative staff requested the Company display in tabular and graphical formats the cumulative ratepayer savings (losses) over time of the OCL buyout along with the Auburndale, Pasco, and Lake QF buyouts. (EXH 8) This comparison is shown in Attachment B to this recommendation. While the Company complied with staff's request, FPC witness Schuster stated that it would be more appropriate to look at the proposed OCL buyout on a stand-alone basis rather than compare its intergenerational fairness to that of other recent buyout transactions. (TR 216) He stated that the other buyouts were embedded in larger transactions that involved pricing settlements, whereas the OCL buyout follows a separate proceeding which resolved the fuel pricing issue. Alternative staff does not believe that structurally separating the buyout and the pricing settlement alters the basic economic fundamentals of either the buyouts or the pricing settlements.

Comparing the cumulative ratepayer savings (losses) of each of the buyouts over the remainder of the original contract periods allows the intergenerational risks of the buyouts to be analyzed. Alternative staff believes that one method of assessing intergenerational risk is to consider cumulative ratepayer savings (losses), measured at annual intervals during the contract period, and the duration of such losses within the contract period. Per Attachment B, the OCL buyout shows a cumulative NPV of -$40.4 million realized five years into the amended contract period. Such cost exposure remains constant through the seventeenth year. Thus, this proposed buyout has maximum cost exposure over a period of thirteen years. None of the other buyouts have comparable cost exposure over a period approaching thirteen years. The Pasco buyout has cost exposure in excess of $40 million, but this level of cost exposure only lasts for less than five years. The other two buyouts never approach cost exposure of $40 million.

Alternative staff believes that the OCL buyout contains the greatest risk of all the QF buyouts recently considered by this Commission based on the aforementioned comparison. Another intergenerational risk perspective is the length of the recovery period of the buyout. The Pasco buyout's cost is recovered within 9 years, the Lake buyout cost is recovered within 12 years, whereas the OCL buyout cost is proposed to be recovered within 5 years. Order No. PSC-97-0523-FOF-EQ, issued May 7, 1997 (Pasco) and Order No. PSC-97-1437-FOF-EQ, issued November 14, 1997 (Lake, protest pending). This comparison indicates that the OCL buyout exposes customers to the greatest cost at the earliest point in time compared to the other recently considered QF buyouts.

Also, alternative staff believes that the ratepayer's cost exposure resulting from recent QF buyouts is additive. In other words, the ratepayer cost exposure associated with the OCL buyout, if approved, would be added to the cost exposure created by the other buyouts, to yield a total QF buyout cost exposure.

According to FPC, the potential reward, or benefit, to ratepayers is nearly three times as great for the OCL buyout as it is for the Pasco buyout. Per Attachment B, the projected ratepayer savings of the proposed OCL buyout is $29.3 million (NPV) and the projected ratepayer savings of the Pasco buyout is $10.1 million (NPV). This higher potential benefit of the OCL buyout is to be expected, since ten years of the original OCL contract are proposed to be bought out, a significantly longer period than the four years and seven months of contract time eliminated in the Pasco buyout. However, OPC witness Larkin stated that eventual ratepayer net benefit, regardless of its magnitude, is unrelated to the issue of intergenerational equity. (TR 266-267) Alternative staff agrees with this perspective.

On the other hand, OCL insisted that if a present value comparison of costs versus the benefits of the OCL contract buyout results in a positive value, after applying the appropriate discount rate, then the modification should be approved. (OCL BR 5-6) Alternative staff does not agree. This methodology would suggest that the Commission unquestionably approve the subject buyout if it resulted in a $1 NPV of savings as late as 30 years from today. Clearly this Commission should not embrace such a proposal.

Methods to reduce the degree of intergenerational inequity within the proposed OCL buyout are included in Issue 5. The methods discussed range from expanding the recovery period to requiring FPC to fund the transaction. In the event the Commission approves the primary staff recommendation on Issue 4, thereby approving the proposed OCL buyout, alternative staff believes that the Commission may find one of the alternative recommendations presented in Issue 5 to be necessary to reduce the intergenerational inequity to more reasonable levels. Since these alternatives delay the maximum buyout cost exposure to a later period than FPC has proposed, costs would be shifted closer in time to when the associated benefits are expected to materialize, thus increasing the level of intergenerational fairness.

ISSUE 3: Will the proposed buyout of the OCL contract provide net benefits sooner than 22 years into the future?

RECOMMENDATION: No. The year in which net benefits, defined as the cumulative present value of the savings exceeding the cumulative present value of the costs, occurs is dependent on the assumptions made in the net present value calculation. Florida Power Corporation's most current calculation does not project net benefits prior to the year 2019. In addition, under the current structure of the buyout, there are no savings prior to the year 2014. [HARLOW, DUDLEY]

POSITIONS OF PARTIES

FPC: The proposed buyout will provide substantial net benefits in every year of the ten-year buyout period and will completely offset the cost of the buyout in the second year of the period. Overall, the savings realized during the buyout period will exceed the buyout's cost by a factor of over 10 to 1 ($522 million to $49.4 million).

OCL: Yes. The modification permits FPC to act now for the long-term benefit of its customers. By relieving the obligation to absorb the high cost of the last ten years of the OCL contract, FPC gains flexibility to take advantage of changing economic conditions and technological advances for the benefit of its customers.

OPC: No. This issue should be deemed stipulated pursuant to Section 120.80(13)(b), Florida Statutes (Supp. 1996), because FPC did not dispute the issue at hearing. Moreover, since the basis of the PAA is not in dispute, the Commission has no basis to retreat from its original denial of FPC's petition.

STAFF ANALYSIS: The year in which net benefits, defined as the cumulative present value of the savings exceeding the cumulative present value of the costs, occurs is dependent on the assumptions made in the NPV calculation. Based on FPC's Exhibits, the proposed buyout is not projected to produce a positive net benefit before the year 2019. (TR 30-32; EXH 4, pp. 18-22) Staff agrees with FPC that the proposed buyout is projected to provide benefits in every year of the ten-year buyout period. However, under the current structure of the buyout, there are no savings prior to the first year of the buyout in 2014.

OCL's position addresses the intangible benefit of increased flexibility in meeting customer needs provided by the buyout. Staff believes this issue addresses the buyout's more tangible expected cost savings, which will not take place until 2014. OCL provided no evidence at hearing stating that net benefits would occur sooner than 22 years into the future.

OPC's position did not address the merits of the issue. OPC's position merely summarizes the grounds of OPC's prehearing motion to have this issue deemed stipulated. Staff notes that the prehearing officer denied this motion at the prehearing.

ISSUE 4: Should the Amendment to the Negotiated Contract between Florida Power Corporation and Orlando Cogen Limited, Ltd., be approved for cost recovery pursuant to Rule 25-17.0836, Florida Administrative Code?

PRIMARY RECOMMENDATION: Yes. FPC's most recent estimate of the net present value (NPV) of benefits from the proposed OCL contract buyout is $32.4 million. These benefits may be overstated, but appear to be positive under varying economic assumptions. The buyout also provides an adequate after-tax return of approximately 12 percent on ratepayers' investment. Also, the intergenerational inequities appear to be reasonable. [HARLOW, KEATING]

ALTERNATIVE RECOMMENDATION: No. The buyout requires FPC's ratepayers to assume all financial risks involved in return for receiving only $0.8 million NPV of savings over 26 years. The buyout places FPC in a more competitive position for the future while failing to recognize strandable cost from a utility-wide perspective. Lastly, when appropriately compared to the existing contract, the buyout results in significant intergenerational inequities requiring customers to wait at least 22 years before seeing a positive benefit from their investment. [DUDLEY]

POSITIONS OF PARTIES

FPC: Yes. The amendment terminating the last ten years of the OCL contract will provide enormous customer savings compared to its near-term cost, while maintaining the beneficial nature of the contract to current customers.

OCL: Yes.

OPC: No. FPC did not identify Rule 25-17.0836 in its petition according to Rule 25-22.036(7)(a)4, which requires that the petitioning party identify the rules and statutes which entitle the petitioner to relief.

PRIMARY STAFF ANALYSIS: FPC's most recent estimate of the net present value (NPV) of benefits from the proposed OCL contract buyout is $32.4 million. (EXH 4, pp. 18-22) FPC also estimates that under the contract, energy costs 11 cents per kWh compared to replacement costs of 3.6 cents per kWh. (TR 65) As discussed in Issue 1, FPC's estimate of the benefits associated with the proposed buyout may be overstated. However, the expected benefits still appear to be highly positive, with a NPV of $19.9 million, when an outside source is used for fuel forecasts and inflation assumptions. (TR 351) The expected benefits from the proposed buyout also appear to be positive under a variety of economic scenarios. The expected benefits ranged from $5.8 million under DRI's pessimistic scenario, to $22.5 million under DRI's optimistic scenario. Therefore, the benefits appear to be positive even under a pessimistic outlook with high inflation and high natural gas prices. These NPV estimates are calculated using FPC's after-tax marginal cost-of-capital. As discussed in Issue 1, staff believes this is appropriate and is implied by Rule 25-17.0836, F.A.C., which concerns the evaluation of cogeneration contract amendments.

The buyout also provides an adequate after-tax return on the ratepayers' investment of approximately 12 percent. The after-tax return remains adequate at 9.2 percent, given a pessimistic scenario of high fuel prices and high inflation.

As discussed in Issue 2, the intergenerational inequities appear to be reasonable, given the expected benefits. In addition, ratepayers in the early years of the contract have already benefitted at the expense of ratepayers in the future. The proposed buyout mitigates this existing inequity to some degree. The buyout provides a positive benefit over the long-term. Staff believes that minimizing rates over the long-term provides the highest assurance that the general body of ratepayers will benefit.

OPC raised a further concern that the expected benefits may not be realized by ratepayers because cost recovery clauses may not be in existence in 2014. However, ratepayer savings are not dependent upon the existence of cost recovery clauses. (TR 189-190) There was no evidence provided by OPC indicating that utilities will not recover the costs associated with PURPA contracts in the future.

As its position on Issue 4, OPC argues that the proposed buyout should not be approved because FPC did not identify Rule 25-17.0836, F.A.C., in its petition. OPC notes that Rule 25-22.036(7)(a)4, F.A.C., requires that the petitioning party identify the rules and statutes which entitle the petitioner to relief.

Staff believes that OPC's position is an untimely motion to dismiss. This issue was not raised in OPC's February 26, 1997, Motion to Dismiss nor was it raised in any other OPC pleading, including its Prehearing Statement, prior to hearing. It would be inappropriate to consider OPC's argument on this issue at this stage in these proceedings.

ALTERNATIVE STAFF ANALYSIS: The Commission has a statutory duty pursuant to Section 366.041, Florida Statutes, to ensure that rates and charges recovered from ratepayers are "just, reasonable, and compensatory." FPC has the highest residential rates among the four investor-owned electric utilities in the State of Florida. (TR 29, 30) The company's proposal is to further increase its residential rates, and also increase the rates to the remaining customer classes over the next five years. Alternative staff believes that for the reasons discussed below and within the alternative recommendations of Issues 1 and 2, the proposed OCL buyout fails each of these thresholds and should therefore be denied.

FPC has provided a proposal which it believes "provides net savings of over $400 million to Florida Power and its customers and will mitigate the exposure of Florida Power and its customers to potentially strandable costs in the future." (TR 64, 69, 187-188, 237) Witness Schuster agreed that Florida Power Corporation would not suffer any harm from the Commission renewing its denial of FPC's petition since FPC would be reimbursed by its customers for all costs. (TR 29, 119, 241, 529) However, customers currently on FPC's system who leave over the next 22 years will not see any net savings under the Company's proposal. (TR 134, 222, 265)

FPC's motivation to buy out its purchased power agreements (PPAs) centers on putting itself in a more competitive position for the future. (TR 30, 73, 75, 81, 232) FPC believes that its cost of electricity from PPAs will be above market prices in a competitive environment. Under the current proposal, FPC concedes that its ratepayers are assuming all financial risks involved in the proposed transaction. (TR 219) Furthermore, witness Schuster indicated that the Company's proposal would place the risk that natural gas prices will escalate significantly in relation to coal prices on FPC's customers in return for relieving them from the risk of fluctuations in coal prices. (TR 93) However, staff notes that since the passage of FERC Order 636, natural gas prices have been volatile and market driven while coal prices have been very stable. If FPC were to fund the buyout versus the proposed ratepayer funded transaction, then FPC's ratepayers would be isolated from the financial risks while FPC would still receive the future benefit of enhanced competitiveness in a market where retail customers have choices.

Alternative staff agrees with witness Schuster that, "Near term is always a little more certain than long term." (TR 98) Hesitation may be the key to good decision making. FPC is currently, and is expected to continue experiencing customer growth. (TR 134, 552) Due to this situation, future contract costs would be spread over a larger customer base thereby reducing the per customer impact of the current OCL contract costs as well as the presumed benefits of the buyout. (TR 134)

Stranded Costs

It is FPC's opinion that the proposed OCL buyout would eliminate potential strandable costs. (TR 67, 188, 237, 493) Stranded costs are investments in plants and contracts that are no longer efficient in a competitive market. FPC has not indicated that on a utility-wide basis, any of its energy resources, which would include the OCL contract, would be strandable. (TR 190) They have only looked at their higher cost resources without recognition of the leverage lower-cost resources provide. (TR 238-239, 254, 258, 292) Focusing on one source of high-cost electricity allows FPC to ignore other resources which would be below market price under competition. Alternative staff believes that such a comparison would have been appropriate given that FPC has already attempted to develop estimates of its cost of providing power and its potential strandable costs in a restructured electric industry. (TR 190)

Witness Schuster indicated that he was aware of stranded cost recovery proposals which included PURPA-related costs. (TR, 80, 188-189) He then agreed that there would be no risk of cost recovery in a deregulated environment that guaranteed recovery of stranded costs, including PURPA-related costs, either through exit fees or transition charges. (TR 189-190) Witness Schuster was also aware of proposals that examined strandable costs on both a cost item specific basis as well as a utility-wide basis. (TR 190)

There was only one successful bid, the OCL buyout proposal, resulting from FPC's reverse RFP solicitation. (TR 52) However, nothing precluded FPC from rejecting the proposed OCL buyout. FPC's current proposal is to buy out the entire contracted amount of the OCL power purchase agreement during the last ten years of the current contract. During this time period, 2014 through 2023, FPC believes it can replace the power at a lower cost to its ratepayers. If FPC believes that the contract will become uneconomical during these years due to the onset of competition, it should have only pursued a proposal which merely reduced its price commitment to the anticipated market level. FPC should not have looked to buy out the entire contract. They could have done this by agreeing to pay off only the capacity payment portion FPC believes will be above the then current market value of capacity. FPC has indicated that the most significant level of savings comes from the reduction in capacity payments in the last ten-year period of the contract. (TR 98, 486) In this manner, FPC could have retained "the beneficial nature of the contract" for current customers as well as the security of the contract for future customers, while reducing future cost liability.

In its analysis, FPC has chosen to use a projection of a combined-cycle unit's current cost as a surrogate for the market price of replacement capacity and energy during the planning horizon. (TR 93, 147-148) It is not evident that the "market" price will be reflective of such a singularity. The "market" price during the buyout years, 2014 through 2023, is expected to be immersed in competition. As such it will likely include some higher cost forms of generation and will reflect a cost higher than today's avoided cost. (TR 77, 254, 256) FPC has indicated that the OCL contract costs approximately 11 cents/kWh during the buyout period while its current avoided cost is about 3.6 cents/kWh. (TR 65, 69) Assuming the "market" price will lie somewhere between these two values, FPC could have reduced the risk exposure if it had endeavored to mitigate a portion of this amount rather than requiring today's customers to bear the burden of the entire gap. Even if the actual market price turns out to be less than the remaining cost, then conceptually FPC continues to have a reliable source of generation, but at a much smaller strandable level. Furthermore, alternative staff expects that the remaining margin would be regarded as a recoverable stranded asset in a post-competitive market after realizing efforts undertaken by FPC to reduce these costs.

Conclusion

Based on the above discussion, and for the reasons discussed within Issues 1, 2, and 3, alternative staff recommends that FPC's proposal to buyout the OCL contract be denied. Approving the buyout requires FPC's ratepayers to assume all financial risks involved in return for receiving only $0.8 million NPV of savings over 26 years. Moreover, the buyout places FPC in a more competitive position for the future while failing to recognize strandable cost from a utility-wide perspective. Lastly, as discussed within Issues 2 and 3, positive savings are not projected to materialize before 22 years and will result in significant intergenerational inequities.

ISSUE 5: If approved, how should Florida Power Corporation recover the expenses associated with the Amendment to the Negotiated Contract between Florida Power Corporation and Orlando Cogen Limited, Ltd.?

PRIMARY RECOMMENDATION: If the Settlement Agreement is approved, the buyout payments should be recovered from the ratepayers over a period of approximately five years, the same time period over which OCL will receive payment. Seventy-seven percent of the buyout payments should be recovered through the Capacity Cost Recovery Clause and 23 percent should be recovered through the Fuel and Purchased Power Cost Recovery Clause. The recovery of payments made prior to their inclusion for recovery through the adjustment clauses should include interest from the date the payments were made. [HARLOW]

FIRST ALTERNATIVE RECOMMENDATION: If the Settlement Agreement is approved, the buyout payments should be recovered from the ratepayers over a period of 10 years. Seventy-seven percent of the buyout payments should be recovered through the Capacity Cost Recovery Clause and 23 percent should be recovered through the Fuel and Purchased Power Cost Recovery Clause. The recovery of payments made prior to their inclusion for recovery through the adjustment clauses should include interest from the date the payments were made. [DRAPER, MCNULTY, WHEELER]

SECOND ALTERNATIVE RECOMMENDATION: FPC should fund the buyout creating a regulatory asset to be recovered accordingly beginning in year 2014. If FPC is not required to delay recovery of the buyout costs until the year in which benefits begin to accrue, the year 2014, then the buyout costs should be recovered over the remaining life of the contract. [DUDLEY]

THIRD ALTERNATIVE RECOMMENDATION: If the primary recommendation to Issue 4 is approved, alternative staff recommends that $44,405,000 of the $49,405,000 total buyout costs be recovered through the Capacity and Fuel Clauses as recommended in the primary recommendation to this Issue, and the remaining $5,000,000 be recovered through current base rate earnings over a five-year period. [NORIEGA]

POSITIONS OF PARTIES

FPC: The cost of the buyout should be recovered through the CCR and the fuel clause in accordance with the Commission's established policy which allocates the buyout cost in proportion to the ratio of the buyout's capacity and energy savings. Such an allocation results in approximately 77% of the buyout cost being recovered through the CCR and the remaining 23% being recovered through the fuel clause. [Note: This issue was not addressed at the hearing and does not appear to be in dispute.]

OCL: No position.

OPC: FPC should not be permitted to recover the buyout costs from its customers. FPC should, however, be permitted to recover the buyout costs through the fuel and capacity cost recovery mechanisms in the years 2014-2018 if the company funds the buyout.

PRIMARY STAFF ANALYSIS: As a part of the Settlement Amendment with OCL, the term of the contract was reduced by 10 years. In return for shortening the contract, FPC agreed to make monthly payments to OCL totaling approximately $49.4 million over a five-year period. (TR 15) FPC requested cost recovery for these payments. (TR 15)

Staff agrees with FPC that the buyout payments should be recovered from FPC's ratepayers over a period of approximately five years, the time period over which OCL will receive payment. The existing contract was approved for recovery from FPC's ratepayers through the cost recovery clauses. FPC does not receive a return on the contract. Further, as discussed in the primary recommendations in Issues 1 and 2, the risks associated with the proposed buyout's benefits and the intergenerational inequities appear reasonable.

Staff agrees with FPC's position that the buyout payment costs should be allocated to the rate classes in proportion to the estimated energy and demand savings in the buyout years, since the contract buyout is justified by FPC on both energy and capacity savings. Thus, in effect, the buyout payments are purchasing demand and energy savings during the buyout years. This methodology is consistent with the methodology approved for FPC's Settlement Agreement with Pasco Cogen, Ltd. See Order No. PSC-97-0523-FOF-EQ, issued May 7, 1997.

The estimated energy and capacity savings during the buyout years 2014 through 2023 were arrived at by estimating what would have been paid based on OCL's contract interpretation and subtracting from that amount the estimated cost of replacement energy and capacity. The energy and capacity savings which result from this analysis are shown in the following table:

SAVINGS OF FPC/OCL BUYOUT ($ millions nominal)			
YEAR	CAPACITY	ENERGY	TOTAL
2014	27.3	7.3	34.6
2015	28.9	8.4	37.3
2016	30.6	8.9	39.5
2017	32.4	9.4	41.8
2018	34.2	9.9	44.1
2019	36.2	10.5	46.7
2020	38.4	11.8	50.2
2021	40.6	12.3	52.9
2022	42.9	13.1	56.0
2023	45.3	13.8	59.1
TOTAL	$356.8	$105.4	$462.2
PERCENT OF TOTAL	77%	23%	

Since the capacity savings of $356.8 million represent 77 percent of the total $462.2 million in savings, staff recommends that 77 percent of the buyout costs be recovered through the Capacity Clause. The remaining 23 percent reflecting energy savings should be recovered through the Fuel Clause.

FPC began making payments to OCL at the beginning of 1997. (TR 209) If the Commission decides that these costs are appropriate for recovery through the Fuel and Capacity clauses, the recovery of payments made prior to their inclusion for recovery through the adjustment clauses should include interest from the date the payments were made. Witness Schuster stated that the commercial paper interest rate of about 5 or 6 percent would apply. (TR 210) The recovery of these payments will be reflected in the next applicable fuel adjustment cycle.

FIRST ALTERNATIVE STAFF ANALYSIS: As discussed in the primary recommendation of Issue 5, the buyout payment costs should be allocated to the rate classes in proportion to the estimated energy and demand savings in the buyout years, since the contract buyout is justified by FPC on both energy and capacity savings.

FPC has proposed that the buyout costs of $49.4 million be recovered over a five-year period. (TR 15) However, as indicated by witness Schuster, the costs of the buyout are not being recovered consistent with the time period within which the benefits accrue. (TR 192) Staff disagrees with FPC's position that this issue was not addressed at the hearing. FPC witness Schuster recognized that increasing the recovery period of the buyout costs to a longer period than the proposed five-year period would reduce the possibility for intergenerational inequities. (TR 208) The period of time between occurrence of the costs and the recognition of the benefits would be reduced if the buyout costs are recovered over a period longer than five years. (TR 208) In order to mitigate the intergenerational inequity, alternative staff recommends spreading the recovery of the buyout costs over a ten-year period.

In addition, recovery of the buyout costs over a ten-year period instead of a five-year period reduces the near-term rate impact to ratepayers. (TR 206) Witness Schuster recognized that a recovery of the buyout costs over more than five years would result in a smaller rate increment than if the recovery were made over five years. (TR 208) Therefore, current ratepayers benefit directly from a longer recovery period.

Spreading the recovery of the buyout payments over ten years instead of five years would create a regulatory asset of about $25 million in the year 2002. FPC's actual payments to OCL are $9.881 million per year, totaling $49.405 million over five years. If recovery of the $49.405 million is spread over ten years, FPC will recover half of the $9.881 million payment to OCL, or $4.940 million per year, plus interest on the unrecovered amount at the thirty-day commercial paper rate, from its ratepayers. The balance of the regulatory asset would increase by $4.940 million each year in the first five years of the recovery period, and after year five decrease by the same amount to reduce to zero in year ten, or by 2006.

If approved, alternative staff recommends that FPC recover the buyout costs through the Fuel and the Capacity clauses over a period of ten years. Upon questioning, witness Schuster indicated that a ten-year recovery period is a feasible option. (TR 221) If the Commission approves the proposed buyout, alternative staff believes that recovery of its costs through the Fuel and Capacity clauses over a ten-year period is a reasonable and appropriate recovery method.

SECOND ALTERNATIVE STAFF ANALYSIS: Although the OCL contract amendment is contingent upon Commission approval, it is not contingent upon Commission acceptance of FPC's proposed method of recovery. (TR 221)

Alternative staff agrees with OPC that based on its own projections, FPC should be willing to fund the buyout as long as the company is permitted to recoup its investment by continuing to recover the existing PPA revenues in the years 2014-2023. (OPC BR 5; TR 240, 333) Witness Schuster agreed that the OCL transaction is in many respects similar to the Tiger Bay transaction.[3] (TR 127) However, due to a lack of immediate savings to offset the up-front costs and the disparity in the amount of customer savings, FPC did not consider self-funding to be an acceptable option. (TR 202, 206) Thus, it appears that if savings are delayed for any length of time and they aren't quite large enough, FPC considers that it is only acceptable for its customers to bear that risk and not itself. The Commission should discourage such selective decision making.

Alternative staff recommends that FPC fund the buyout using the most cost-effective instrument available as it was willing, and did, with the buyout of the Tiger Bay PPAs. In fact, were FPC to fund the buyout and get favorable tax treatment, the net of tax, NPV cost to the company in 1997 dollars would be less than the $40.4 million NPV cost to the customers under the current proposal. (TR 128) If customers leave before benefits accrue, they never see

[3] See, e.g., In re Petition for Approval of an Agreement to Purchase the Tiger Bay Cogeneration Facility and Terminate related Purchase Power Contracts, Docket 970096-EQ, Order No. PSC-97-0652-S-EQ, issued June 9, 1997.

any benefits; however, if FPC funds the buyout, it will still be made whole as customers who depart will be replaced with new customers as FPC is currently, and is expected to continue, experiencing customer growth. (TR 134)

In its brief, OPC addresses the impact on the amount of the buyout cost based on the tax treatment of the buyout payments. If the payments from customers are not considered tax deductible, FPC will, in effect, be required to contribute an additional 38.58 percent of the payment amount each year under its current proposal. (OPC BR 4; TR 366-367, 535-536) Therefore, the true cost of the buyout in this instance will be not only the $9,881,000 per year from the customers, but approximately an additional $4 million per year from FPC. (TR 367, 537) Witness Schuster stated that it was "essential to make conservative assumptions with respect to taxes, assume that the buyout cost will not be deductible on a current basis." (TR 127-128) Realizing the true cost of the OCL buyout reduces the cost-effectiveness of the proposal.

As referenced in witness Schuster's direct testimony, the reverse RFP contemplated a wide array of proposals. "Contract buy outs may be designed to partially or completely buy out the existing contract. Partial buy outs can be based upon a reduction in the term of the contract, a reduction in committed capacity, or other changes in the existing contract." (TR 54) If approved, alternative staff recommends that the buyout cost be treated as a regulatory asset and recovered during the years in which the benefits accrue, the years 2014 through 2023. This recovery treatment alleviates all intergenerational fairness issues, removes the financial risks from FPC's ratepayers, would be expected to increase the NPV of the transaction, and allows FPC to fully recover its investment even if savings never materialize. Furthermore, it appears that this type of recovery treatment was acceptable, if not contemplated, by FPC from the onset.

The first alternative recommendation suggests that the buyout cost be recovered over the next ten years. If FPC is not required to delay recovery of the buyout costs until the year in which benefits begin to accrue, the year 2014, then alternative staff recommends that they should be recovered over the remaining life of the contract.

An objective of the reverse RFP solicitation, as described by witness Schuster, is "to solicit proposals for capacity payment buydowns which would result in a rescheduling of capacity payments over the remaining life of existing purchase agreements, resulting in higher capacity payments in the near term and lower capacity payments in the future." (TR 53) If not funded by FPC, the buyout cost should be recovered, plus interest at the thirty-day commercial paper rate, over the remaining term of the contract. This recovery policy is consistent with recovering the cost of an asset over its used an useful life.

THIRD ALTERNATIVE STAFF ANALYSIS: The central question in this issue is to decide whether it is fair for FPC's ratepayers to fund the entire Contract buyout. Alternative staff believes that it is more equitable to recover a portion of the costs through current base rate earnings, and have the remainder flow through the Capacity and Fuel Clauses as described in the primary recommendation to this Issue. Specifically, the majority of the buyout should be recovered as follows: 23 percent of the costs should be recovered through the Fuel and Purchased Power Cost Recovery Clause, and 77 percent should be recovered through the Capacity Cost Recovery Clause.

FPC agrees that the risk to ratepayers would be reduced if part of the buyout costs are funded through existing base rates rather than through the cost recovery clauses. This scenario would effectively result in non-recovery of a portion of the buyout costs from FPC's perspective. (TR 218-219) Alternative staff believes that $5,000,000, or roughly ten percent of the total buyout cost, is a reasonable amount to be recovered through base rates.

First, FPC and its stockholders stand to benefit from this proposal because the Company is motivated to buyout its purchased power agreements in order to put itself in a more competitive posture for the future. (TR 73) These agreements limit FPC's financial flexibility due to long-term liabilities and potentially strandable costs. The Contract buyout relieves the Company and its stockholders from assuming these liabilities and allows recovery through the aforementioned clauses. Moreover, ratepayers benefit when they avoid higher future energy costs associated with value-of-deferral contracts, and when the rate impact of the buyout is reduced by the portion assigned to base rates.

Second, even though both FPC and its ratepayers stand to benefit from the buyout, FPC's proposal asks ratepayers to assume the entire risk of the transaction. (TR 219) In its brief, OPC addresses the risk related to the projected savings. (OPC BR 4) Since these savings are at risk due to several economic conditions, alternative staff believes that it is more objective to recover the majority of the costs dollar for dollar through the recovery clauses as requested by the Company, and to allow the remainder of the costs to flow through current base rate earnings.

Third, a $5,000,000 amount through base rates would account for approximately 19 basis points on FPC's return on equity (ROE). This can be calculated by using FPC's assumption of a 38.58 percent composite income tax rate and a common equity amount of approximately $1.6 billion. (EXH 4, p. 15; EXH 21) If this amount is amortized over a five-year period, the Company's achieved ROE would only be reduced by approximately 3.8 basis points per year. This method of recovery not only allows the Company and its stockholders to retain a favorable market position, but also provides ratepayers with a safety net that accounts for the risk associated with the Contract buyout.

Fourth, alternative staff's proposal increases the NPV of the transaction; thus improving the likelihood that the savings associated with it will materialize. The Company's latest calculations estimate the NPV of the buyout at $34,647,000. (TR 89) Alternative staff estimates that if the Company's numbers are assumed to be correct and everything else is held constant, the ratepayers should benefit by another $4,090,000. This increases the NPV of the transaction to $38,737,000. Moreover, the Company would be allowed to recover the cost of the buyout during its proposed five-year period, and would avoid interest payments on any amount that it would have to borrow if a longer recovery period was in effect.

Given these reasons, alternative staff concludes that it is appropriate to approve recovery of the buyout costs through the recovery clauses and current base rate earnings. This plan provides the necessary balance where FPC, its stockholders and ratepayers all share the risk associated with this buyout proposal.

ISSUE 6: Should the Office of Public Counsel's renewed motion to dismiss Florida Power Corporation's petition on proposed agency action be granted?

RECOMMENDATION: No. The Commission previously denied a motion to dismiss filed by the Office of Public Counsel in this docket. OPC's renewed motion reargues the same points raised in its original motion and should be denied on the same grounds.

STAFF ANALYSIS: On February 26, 1997, OPC filed a motion to dismiss FPC's petition on proposed agency action (original motion). By Order No. PSC-97-0779-FOF-EQ, issued July 1, 1997, the Commission denied OPC's motion. Under a section titled "Procedural Matters" in its post-hearing brief (pp.16-19), OPC seeks to renew its motion on the same grounds presented in the original motion.

In its renewed motion, OPC argues that FPC has not demonstrated standing to protest the Commission's PAA Order in this docket because FPC has not shown that its substantial interests were either determined or affected by the PAA Order. OPC contends that the PAA Order neither helped nor harmed the company because, under the original contract or the proposed amendment, FPC would be reimbursed by its customers for all its costs. OPC cites to the record testimony of witnesses Larkin and Schuster in support of its assertion that FPC will suffer no harm if the proposed amendment is rejected. The parties have not had an opportunity to respond to this renewed motion.

Staff recommends that the renewed motion be denied (1) for the same reasons the Commission denied the original motion or (2) because it is an untimely and inadequate motion for reconsideration.

In its original motion, OPC argued that FPC had not established standing to protest the Commission's PAA order because its substantial interests were not affected by the PAA order. In support, OPC asserted that under either the original OCL contract or the proposed amendment, FPC would be reimbursed by its customers for all costs and would suffer no harm. In addition, OPC contended that FPC failed to allege the type of immediate injury-in-fact necessary to confer standing under Agrico Chemical Company v. Department of Environmental Regulation, 406 So. 2d 478 (Fla. 2nd DCA 1981). In its renewed motion, OPC simply takes issue with the Commission's finding in Order No. PSC-97-0779-FOF-EQ that these arguments do not provide adequate grounds to dismiss FPC's petition and reargues these points.

OPC's renewed motion essentially asks the Commission to reconsider its July 1 order denying OPC's original motion. Under Rule 25-22.060, Florida Administrative Code, OPC was permitted 15 days to request reconsideration of the Commission's order. Not only is OPC's renewed motion four and one-half months late, it fails to allege any point of fact or law that the Commission overlooked or failed to consider in Order No. PSC-97-0779-FOF-EQ.

ISSUE 7: Should this docket be closed?

RECOMMENDATION: Yes. If no party files a Motion for Reconsideration or Notice of Appeal of the Commission's Final Order, no further action will be required in this docket, and it should be closed.

POSITIONS OF PARTIES

FPC: No position provided.

OCL: No.

OPC: Yes.

STAFF ANALYSIS: If no party files a Motion for Reconsideration or Notice of Appeal of the Commission's Final Order, no further action will be required in this docket, and it should be closed.

Docket No. 961184-EQ
Late Filed Exhibit No. 6
Page 1 of 6

Florida Power Corporation
Savings to FPC Customers Due to OCL Contract Buyout
Cumulative Net Present Value of Ratepayer Savings with Updated Discount Rate
($000)

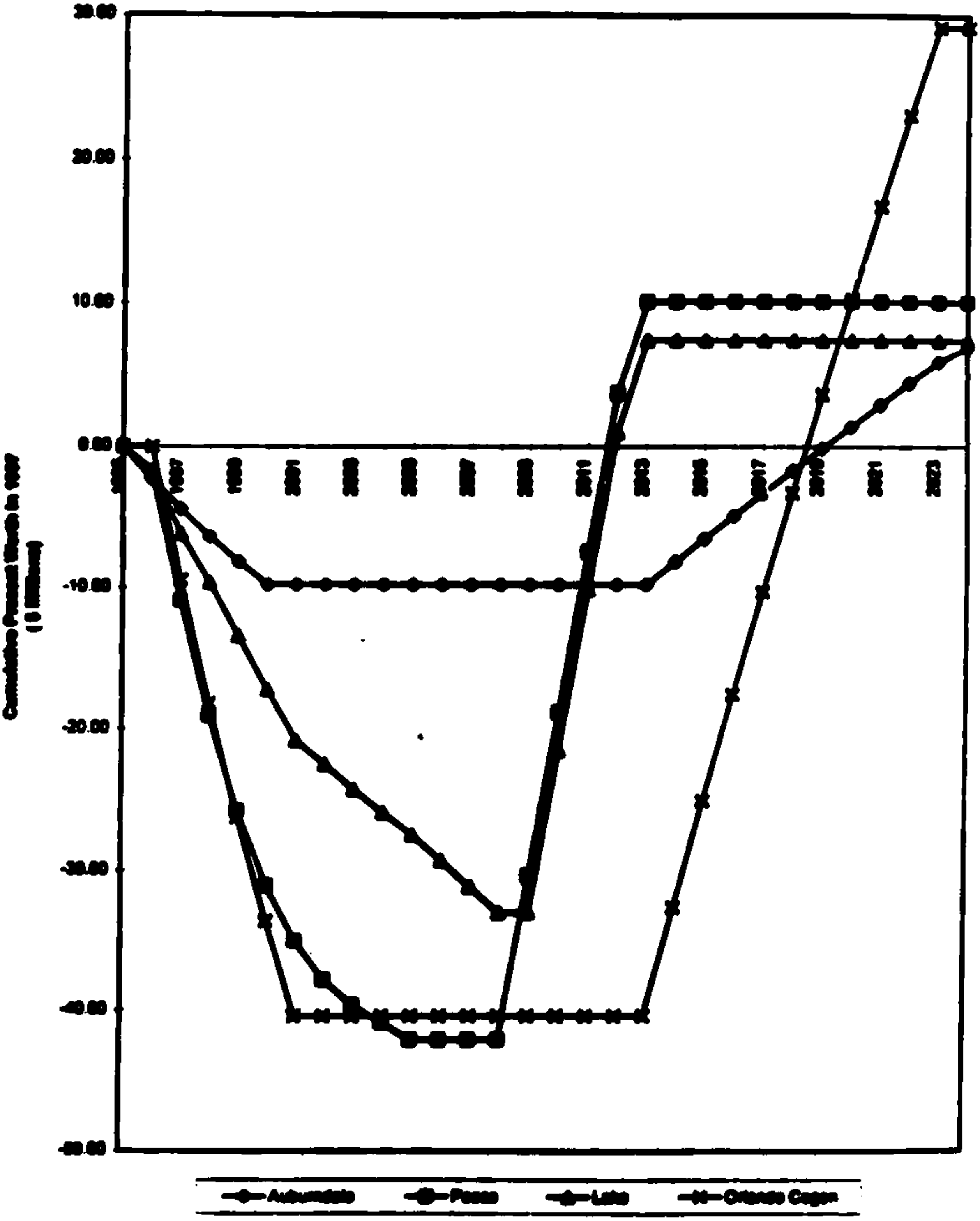
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Contract Case			Replacement Case				
			(1)+(2)				(4)+(5)+(6)	(3)-(7)
Year	Capacity	Energy	Total	Capacity	Energy	Buyout Cost	Total	Customer Savings
1997	0	0	0	0	0	8,881	8,881	(8,881)
1998	0	0	0	0	0	8,881	8,881	(8,881)
1999	0	0	0	0	0	8,881	8,881	(8,881)
2000	0	0	0	0	0	8,881	8,881	(8,881)
2001	0	0	0	0	0	8,881	8,881	(8,881)
2002	0	0	0	0	0	0	0	0
2003	0	0	0	0	0	0	0	0
2004	0	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0	0
2006	0	0	0	0	0	0	0	0
2007	0	0	0	0	0	0	0	0
2008	0	0	0	0	0	0	0	0
2009	0	0	0	0	0	0	0	0
2010	0	0	0	0	0	0	0	0
2011	0	0	0	0	0	0	0	0
2012	0	0	0	0	0	0	0	0
2013	0	0	0	0	0	0	0	0
2014	36,322	21,666	[illegible]	5,780	[illegible]	0	21,779	36,229
2015	38,177	22,239	60,416	5,915	16,264	0	22,080	38,336
2016	40,116	22,872	62,988	5,995	16,386	0	22,410	40,578
2017	42,171	23,401	65,572	6,000	16,751	0	22,748	42,824
2018	44,312	24,012	68,324	6,084	16,999	0	23,083	46,231
2019	46,578	24,646	71,224	6,202	17,262	0	23,464	47,770
2020	48,963	25,358	74,321	6,288	17,509	0	23,798	50,524
2021	51,463	25,976	77,439	6,414	17,767	0	24,181	53,249
2022	54,070	26,677	80,748	6,574	18,031	0	24,605	56,143
2023	56,836	27,403	84,239	6,717	18,298	0	25,014	59,224
Total 2014-2023 =			708,270	61,782	171,469	0	233,182	475,107
Net present value at 1/1/97 =			109,910	9,880	27,386	40,250	77,281	32,449

Description of calculations:

Column(1) = Column(16) * Input(29) * Input(30) *(Input(30) / Input (32)) * Input(31)
Column(2) = Column(9) + Column(17)
Column(3) = Column(1) + Column(2)
Column(4) = Column(18) * Input(29) * Input(30)
Column(5) = Column(23) * Column(12) / 1000
Column(6) = Buyout payments per Contract Amendment dated September 20, 1996
Column(7) = Column(4) + Column(5) + Column(6)
Column(8) = Column(3) - Column(7)

Docket No. 961184-EQ
Staff's Second Set of Interrogatories
Response No. 7

Annual Cumulative Net Present Value of QF Contract Buyouts



Docket No. 961184-EQ
Staff's Second Set of Interrogatories to Florida Power Corporation
Response to Interrogatory No. 7

Savings to FPC Customers
Due to QF Contract Buyouts
Annual Cumulative Net Present Value as of 1/1/97
($Millions)

Year	(1) Auburndale Contract Buyout Savings	(2) Pasco Contract Buyout Savings	(3) Lake Contract Buyout Savings	(4) OCL Contract Buyout Savings
1996	(2.30)	(1.79)	(1.87)	0.00
1997	(4.41)	(10.88)	(6.17)	(6.40)
1998	(6.35)	(10.88)	(9.88)	(16.30)
1999	(8.14)	(25.73)	(13.48)	(28.30)
2000	(0.79)	(31.84)	(17.21)	(36.91)
2001	(0.79)	(35.88)	(20.79)	(40.41)
2002	(0.79)	(37.88)	(22.42)	(40.41)
2003	(0.79)	(39.82)	(24.10)	(40.41)
2004	(0.79)	(40.87)	(25.88)	(40.41)
2005	(0.79)	(42.87)	(27.44)	(40.41)
2006	(0.79)	(42.87)	(29.38)	(40.41)
2007	(0.79)	(42.87)	(31.13)	(40.41)
2008	(0.79)	(42.87)	(28.91)	(40.41)
2009	(0.79)	(30.30)	(26.91)	(40.41)
2010	(0.79)	(18.88)	(21.47)	(40.41)
2011	(0.79)	(7.40)	(10.11)	(40.41)
2012	(0.79)	3.70	1.82	(40.41)
2013	(0.79)	10.88	7.40	(40.41)
2014	(8.13)	10.88	7.40	(32.58)
2015	(6.40)	10.88	7.40	(24.97)
2016	(4.87)	10.88	7.40	(17.58)
2017	(3.27)	10.88	7.40	(10.30)
2018	(1.80)	10.88	7.40	(3.30)
2019	(0.13)	10.88	7.40	3.60
2020	1.41	10.88	7.40	10.30
2021	2.90	10.88	7.40	16.70
2022	4.40	10.88	7.40	23.11
2023	5.80	10.88	7.40	28.28
2024	6.82	10.88	7.40	28.28