State of Florida

Public Service Commission

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RECORDS AND REPORTING

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DATE: NOVEMBER 18, 1999

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

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (SLEMKEWICZ) JS DM
DIVISION OF ELECTRIC AND GAS (KUMMER) RVE
DIVISION OF LEGAL SERVICES (C. KEATING) WCK JDJ

RE: DOCKET NO. 991695-EI - REQUEST FOR AUTHORITY TO ESTABLISH A REGULATORY LIABILITY TO DEFER 1999 EARNINGS FOR DISPOSITION IN 2000 BY FLORIDA POWER CORPORATION

AGENDA: 11/30/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS:

FILE NAME AND LOCATION: S:\PSC\AFA\WP\991695.RCM
ATTACHMENT IS NOT AVAILABLE

CASE BACKGROUND

On November 2, 1999, Florida Power Corporation submitted a request to defer 1999 earnings for disposition in 2000. This request is similar to the request that the Company submitted last year in Docket No. 981635-EI to defer 1998 earnings for disposition in 1999. That request was approved in Order No. PSC-98-1750-FOF-EI, issued December 22, 1998. The 1998 deferred earnings were subsequently applied to accelerate the amortization of the Tiger Bay regulatory asset.

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FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Florida Power Corporation's (FPC) request to establish a regulatory liability to defer 1999 earnings for disposition in 2000?

RECOMMENDATION: Yes. The Commission should approve FPC's request to establish a regulatory liability to defer 1999 earnings for disposition in 2000. (SLEMKEWICZ)

STAFF ANALYSIS: Pursuant to Order No. PSC-97-0652-S-EQ, issued June 9, 1997, the Commission approved a stipulation concerning the disputed issues and the accounting treatment related to FPC's purchase of the Tiger Bay Limited Partnership (Tiger Bay) cogeneration facility and the termination of the related purchased power contracts (contracts). As a result, a regulatory asset of approximately $370 million was created related to the termination of the contracts. The regulatory asset is being amortized by using the savings realized from the early termination of the contracts. It is expected that the regulatory asset will be fully amortized by 2008 using this methodology. As part of the stipulation, however, FPC has the discretion to accelerate the amortization if and when earnings permit. FPC's ratepayers will not receive any of the savings associated with termination of the contracts until the entire Tiger Bay regulatory asset is fully amortized.

At the current time, FPC estimates that its 1999 earnings level will be sufficient to allow it to increase the amount of the Tiger Bay regulatory asset amortization. As an alternative, however, FPC states that it desires the opportunity to consider other unspecified options that might allow its ratepayers to receive the benefit of 1999 earnings sooner than if additional Tiger Bay amortization is booked. (See Attachment) In order to accomplish this, FPC is requesting that it be allowed to defer an unspecified amount of 1999 earnings. This deferral would create a regulatory liability to be disposed of in the future. FPC has agreed that interest will be accrued on the deferred earnings.

Since no proposal for the disposition of the deferred 1999 earnings has been presented, Staff cannot presently determine whether the deferral will, in fact, result in a more immediate benefit to FPC's ratepayers. However, Staff believes it is not in the best interests of FPC's ratepayers to preclude FPC from offering any plan or proposal that might accomplish this end. Given FPC's assurances that the deferred 1999 earnings, plus interest, will be applied against the Tiger Bay regulatory asset if a proposal is either not filed or is not approved by the Commission, the Staff recommends that FPC's request be approved.

ISSUE 2: How should FPC's 1999 deferred earnings, if any, be treated in the capital structure for earnings surveillance reporting purposes?

RECOMMENDATION: For earnings surveillance reporting purposes, any 1999 deferred earnings should be included in the capital structure as a separate line item using the actual interest rate applied to the deferred earnings. (SLEMKEWICZ)

STAFF ANALYSIS: When working capital is computed, interest-bearing liabilities are excluded from the calculation. FPC's deferred earnings regulatory liability is interest bearing. In reconciling the rate base and the capital structure, the adjustment to exclude interest-bearing liabilities increases the total amount of capital. The capital structure can be increased on a pro rata basis over all sources of capital or on a specific basis over one or more sources of capital. If the reconciliation is made pro rata, the Company will earn its overall cost of capital on the balance of the deferred earnings. However, the Company would only be accruing interest at the commercial paper rate which is less than its overall cost of capital.

Staff believes that FPC's deferred earnings should be included in the capital structure as a separate line item using the actual interest rate applied to calculate the interest. This is consistent with the treatment approved in Docket No. 981635-EI concerning FPC's 1998 deferred earnings. This treatment is also consistent with the treatment in a number of other Commission cases. In Order No. 22367 involving Quincy Telephone (Docket Nos. 890292-TL and 891237-TL), deferred revenues from 1987, 1988, 1989, and the first six months of 1990 were included in the capital structure and allowed to accrue interest at the thirty day commercial paper rate. In Order No. PSC-94-0172-FOF-TL involving Southern Bell (Docket No. 920260-TL), the accrued refund for Florida ratepayers was included in the capital structure as a specific adjustment to short-term debt and allowed to accrue interest at the thirty day commercial paper rate. In Order No. PSC-97-0135-FOF-EI involving Florida Public Utilities Company (Docket No. 961542-EI), deferred revenues associated with over earnings were included in the capital structure as a specific adjustment to short-term debt and allowed to accrue interest at the thirty day commercial paper rate. Finally, in Order No. 97-0436-FOF-EI involving Tampa Electric Company (Docket No. 950379-EI), deferred revenues were included in the capital structure as a separate line item at the commercial paper rate.

ISSUE 3: Should the Commission approve FPC's request to file a proposal for the disposition of the 1999 deferred earnings by October 1, 2000?

RECOMMENDATION: No. The Commission should direct FPC to file a proposal for the disposition of the 1999 deferred earnings by August 1, 2000. If a proposal is not filed by that date, FPC should be directed to immediately apply any deferred 1999 earnings, plus interest, against the Tiger Bay regulatory asset. (SLEMKEWICZ)

STAFF ANALYSIS: In its request, FPC stated that it would file either a proposal, or a notification that no proposal would be filed, by October 1, 2000. Due to the unspecified nature of any proposal(s) that might be offered by FPC and the time required to adequately review any such proposals, Staff is concerned about the timing for the filing of a proposal. The suggested October 1, 2000, filing date may not allow Staff, or any intervenors, adequate time to evaluate the proposal, conduct any required discovery and prepare a recommendation for the Commission's consideration prior to the end of 2000. Therefore, Staff recommends that FPC be directed to file any proposal that it intends to offer by August 1, 2000. This will allow FPC seven months from the date of the Commission's vote on this recommendation to put any proposal together. Staff further recommends that if a proposal is not filed by August 1, 2000, FPC be directed to immediately apply any 1999 deferred earnings, plus interest, to the Tiger Bay regulatory asset.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open pending the review of any proposal for the final disposition of any deferred 1999 earnings. However, if FPC does not file a proposal by August 1, 2000, this docket should be administratively closed. (C. KEATING, SLEMKEWICZ)

STAFF ANALYSIS: This docket should remain open pending the review of any proposal for the final disposition of any deferred 1999 earnings. However, if FPC does not file a proposal by August 1, 2000, this docket should be administratively closed.

Florida Power
CORPORATION

JOHN SCARDINO, JR.
Vice President and Controller

November 2, 1999

Mr. Tim Devlin, Director
Division of Audits and Financial Analysis
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Request for authority to establish a regulatory liability to defer 1999 earnings for disposition in 2000.

Dear Mr. Devlin:

As you are aware, under the stipulation approved by the Commission in Docket No. 970096-EQ regarding Florida Power's purchase of the Tiger Bay cogeneration facility, a regulatory asset of approximately $370 million was created based on the portion of the purchase price attributable to the termination of five high-cost purchase power agreements previously served from the facility. The Tiger Bay regulatory asset was expected to be fully amortized using the savings realized by terminating these agreements by 2008, at which time the savings would begin being passed through directly to Florida Power's customers. The stipulation also provided that Florida Power would have the discretion to accelerate the amortization of the regulatory asset through contributions from the Company's earnings when and to the extent those earnings permit, in which case customers would begin receiving the Tiger Bay savings sooner -- estimated to be as early as 2005 under the most favorable circumstances.

At this juncture, Florida Power believes 1999 system earnings may exceed the level estimated in its 1999 forecasted surveillance report submitted to the Commission last March, in large part due to the revenues associated with higher kiloWatt-hour sales and changes in the timing of adding the Company's new generating plant, Hines Unit 1, to rate base. If this expectation proves to be correct, Florida Power will be in a position to make an additional contribution to the amortization of the Tiger Bay regulatory asset commensurate with the amount of these additional earnings, as determined from the Company's 1999 books and records at year-end.

In addition, Florida Power believes that other, alternative uses of these expected additional 1999 earnings may present themselves during the year 2000 that would have the potential of allowing customers to receive the benefit of the additional earnings much sooner than would be the case if these earnings were used to accelerate the amortization of the Tiger Bay regulatory asset. However, absent the grant of authority described below prior to the closing of the Company's 1999 books and records, Florida Power would find it necessary to use the additional 1999 earnings to write-down the Tiger Bay regulatory asset as authorized by the stipulation.

To avoid losing the opportunity to enhance the benefit of the additional 1999 earnings to its customers, Florida Power requests Staff's assistance in obtaining authority from the Commission, before the Company's 1999 books and records must be closed, to create a regulatory liability in the amount of the additional earnings, adjusted for income taxes.[1] Florida Power proposes that the order granting this authority would require the Company to file, no later than October 1, 2000, a petition proposing a utilization of the regulatory liability that provides a greater benefit to customers than accelerating the amortization of the Tiger Bay regulatory asset. The order would further require that if such a petition is either not filed by October 1, 2000, or is filed but not approved by the Commission, Florida Power must immediately apply the regulatory liability and accrued interest to the Tiger Bay regulatory asset on its 2000 books and records. For earnings surveillance reporting purposes, Florida Power proposes that the deferred 1999 earnings be included in the Company's capital structure as a separate line item using the actual interest rate applied to the deferred earnings.

The treatment of Florida Power's additional 1999 earnings described above is consistent with the treatment recommended by Staff and approved by the Commission in response to the Company's request to defer additional 1998 earnings.[2] Florida Power believes that similar treatment of its additional 1999 earnings also warrants Staff's support and the Commission's approval because, as the Commission recognized in approving the

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[1] Consistent with the notification procedure for accelerated amortizations specified in the Tiger Bay stipulation, Florida Power will notify Staff of the amount of the regulatory liability when filing its December 1999 surveillance report.

[2] *See*, Order No. PSC-98-1750-FOF-EI, issued December 22, 1998 in Docket No. 981635-EI, which became final in the absence of a petition for a formal proceeding on January 13, 1999.

1998 earnings deferral, it affords the opportunity to enhance the benefit to customers at no risk to the benefit currently available to them. The creation of a regulatory liability in this manner will preserve the ability to use the additional earnings exactly as they can be used now, while, at the same time, providing an otherwise unavailable option to use the earnings in a way that may provide customers with a more immediate benefit. Your efforts to bring this request before the Commission at the earliest opportunity will be greatly appreciated.

I will be happy to meet with you and other interested Staff members at your convenience to discuss our request in greater detail and address any questions you may have. Thank you for your attention and consideration of this matter.

Very truly yours,

John Scardino, Jr.

JS/JAM/ams

cc: Mr. Jack Shreve, Public Counsel