ORIGINAL

State of Florida

Public Service Commission

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

DATE: September 20, 2000

TO: All Parties of Record

FROM: Cochran Keating, Senior Attorney WCK
Todd Bohrmann, Regulatory Analyst IV WBM

RE: 000001-EI - Fuel and purchased power cost recovery clause and generating performance incentive factor.

Via Facsimile

This memorandum is to confirm and delineate the Commission Staff's proposed methodology, as presented at our September 12, 2000, meeting with the parties, to implement the Commission's recent decision in Docket No. 991779-EI concerning the appropriate application of incentives to wholesale power sales. As stated at the meeting, although the Commission has not yet issued its final order in this docket, Staff believes that implementation of the Commission's decision remains an open issue which should be resolved at this November's fuel hearing.

To implement the Commission's decision in Docket No. 991779-EI, Staff believes that the following issues are appropriate for resolution at this November's fuel hearing:

1. How should the Commission's decision in Docket No. 991779-EI, concerning the application of incentives to wholesale power sales, be implemented?

2. What is the appropriate estimated benchmark level for calendar year 2001 for gains on non-separated wholesale energy sales eligible for a shareholder incentive pursuant to the Commission's decision in Docket No. 991779-EI?

As discussed at the meeting, Staff proposes the following methodology to address the first issue:

1. In its Actual/Estimated True-Up filing and testimony, each utility shall include an estimated value of gains on eligible non-separated wholesale energy sales for the current calendar year (2000) based on actual and estimated data;

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2. In its Projection filing, each utility shall include a forecasted value of gains on eligible non-separated wholesale energy sales for the next calendar year (2001);

3. Each utility shall compare its forecasted value of gains from eligible sales for the next calendar year (2001) to an estimated three-year moving average of such gains. This estimated three-year moving average, or estimated benchmark, will be based on actual gains from eligible sales for each of the previous two calendar years (1998 and 1999) and the estimated gains from eligible sales for the current calendar year (2000). This comparison will be one of numerous inputs that each utility will use to calculate its levelized fuel cost recovery factor for the next calendar year (2001);

4. In its April True-Up filing in the next calendar year (2001), each utility shall indicate its actual gains on eligible non-separated wholesale energy sales for the previous calendar year (2000). Each utility will then re-calculate its three-year moving average based on the actual gains from eligible sales for each of the previous three years (1998, 1999, and 2000) to establish an actual benchmark.

5. Each utility shall record its actual gains from eligible non-separated wholesale energy sales on its Schedule A-6 filed monthly with the Commission. When these actual gains are equal to or less than the utility's actual benchmark, the utility shall credit 100 percent of these gains to its ratepayers through its fuel and purchased power cost recovery clause (fuel clause). When these actual gains are greater than the utility's actual benchmark, the utility shall credit 80 percent of the gains above the benchmark to its ratepayers through its fuel clause. The utility shall credit the remaining 20 percent to its shareholders;

6. Each utility shall reflect any differences between its actual and forecasted gains from eligible sales through its monthly true-up calculations in Schedule A-2;

7. The first estimated benchmark for gains on eligible non-separated wholesale energy sales shall be established at the November 2000 fuel hearing for purposes of calculating a levelized fuel cost recovery factor for 2001. The shareholder incentive shall apply to actual gains on eligible sales made over the actual benchmark for 2001. On a going-forward basis, the difference between actual and forecasted gains on eligible sales shall be "trued-up" at each fuel hearing.

For illustrative purposes, this methodology, using hypothetical data, is presented in table form in the attached document.

If have any questions or comments concerning Staff's proposal, please contact Todd Bohrmann at (850) 413-6445 or Cochran Keating at (850) 413-6193.

WCK
Attachment
cc: Division of Regulatory Oversight
Division of Economic Regulation
i: 000001m6.wck

Proposed Shareholder Incentive Implementation Methodology
Hypothetical Example

Part I	A	1998 Actual Gains *	$100.00	
Nov '00	B	1999 Actual Gains *	$110.00	
	C	2000 Actual/Estimated Gains	$120.00	
	D	2001 Forecasted Benchmark	$110.00	(A+B+C)/3
	E	2001 Forecasted Gains *	$130.00	
	F	2001 Forecasted Ratepayer Credit	$126.00	D+((E-D)*.8)
Part II	G	2000 Actual Gains *	$75.00	
Apr '01	H	2001 Actual Benchmark	$95.00	(A+B+G)/3
Part III	I	2001 Actual/Estimated Gains *	$128.00	
Nov '01	J	2001 Actual/Estimated True-Up	($4.60)	L-F
	K	2002 Forecasted Benchmark	$104.33	(B+G+I)/3
	L	2001 Estimated Ratepayer Credit	$121.40	H+((I-H)*.8)
Part IV	M	2001 Actual Gains *	$140.00	
Apr '02	N	2001 Final True-up	$9.60	O-L
	O	2001 Actual Ratepayer Credit	$131.00	H+((M-H)*.8)
	P	2002 Actual Benchmark	$108.33	(B+G+M)/3

Note: Items marked with an asterisk (*) are values that would be found in a utility filing, but are hypothetical for this example.