

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE: DOCKET NO. 000982-EI - Petition by Florida
Power & Light Company for approval of
conditional settlement agreement which
terminates standard offer contracts originally
entered into between FPL and Okeelanta
Corporation and FPL and Osceola Farms, Co.

BEFORE: CHAIRMAN J. TERRY DEASON
COMMISSIONER E. LEON JACOBS, JR.
COMMISSIONER LILA A. JABER
COMMISSIONER BRAULIO L. BAEZ

PROCEEDINGS: AGENDA CONFERENCE

ITEM NUMBER: 42**PAA

DATE: Tuesday, October 17, 2000

PLACE: 4075 Esplanade Way, Room 148
Tallahassee, Florida

REPORTED BY: MARY ALLEN NEEL
Registered Professional Reporter

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PARTICIPANTS:

TODD BOHRMANN, Commission Staff.

MIKE HAFF, Commission Staff.

KENNETH HOFFMAN, Rutledge, Ecenia, Underwood,
Purnell & Hoffman, on behalf of Florida Power & Light
Company.

STAFF RECOMMENDATION

Issue 1: Should the Commission approve Florida Power & Light Company's Petition for Approval of Agreement to Buy Out the Okeelanta Corporation and Osceola Farms Standard Offer Contracts?

Recommendation: Yes. The agreement appears to be cost-effective and in the best interest of FPL's ratepayers. The agreement will enable the Okeelanta and Osceola facilities to become merchant plants on the electric grid, thus mitigating potential price spikes in the wholesale electricity market. If the agreement is approved, FPL should adjust the capital structure in its earnings surveillance reports to comply with the equity ratio cap contained in the stipulation approved by the Commission in Order No. PSC-99-0519-AS-EI.

Issue 2: Should the Commission approve the cost recovery method for the settlement payment as proposed by Florida Power & Light Company in Docket No. 000001-EI at this time?

Recommendation: Yes. Pursuant to testimony filed in Docket No. 000001-EI and as discussed at the September 26, 2000 Agenda Conference, FPL has proposed deferring collection of the settlement payment until January 1, 2002. Beginning on January 1, 2002, FPL has also proposed to amortize the settlement payment over a period of five years with the unamortized portion accruing interest at the commercial paper rate. FPL's proposal results in approximately \$29 million less in charges through the adjustment clauses.

Issue 3: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.

1 CHAIRMAN DEASON: Item 42.

2 MR. HAFF: Item 42 is staff's
3 recommendation on FPL's petition to approve a
4 settlement agreement which terminates two
5 standard offer contracts, the Okeelanta and
6 Osceola contracts. This item was deferred from
7 the September 26 agenda conference. And to
8 address some of the questions and discussion
9 that occurred at that agenda conference, we have
10 added some language and added an additional
11 issue which is shown in type-strike format.
12 That's new Issue 2.

13 I believe FPL is here. I don't know if
14 they want to make a presentation or just answer
15 questions.

16 CHAIRMAN DEASON: Mr. Hoffman?

17 MR. HOFFMAN: Mr. Chairman, my name is Ken
18 Hoffman. I'm here to make a very brief
19 presentation. Thank you, Mr. Chairman. Ken
20 Hoffman. With me are Gary Harris and Sam Waters
21 on behalf of Florida Power & Light Company.

22 Florida Power & Light Company supports the
23 revised staff recommendation. I will focus only
24 on a few points, as I know you heard substantial
25 discussion the last time we were before you.

1 First I want to remind you what Florida
2 Power & Light Company is asking for. Our
3 petition asks the Commission to approve the
4 settlement agreement for the buy-out of these
5 standard offer contracts and to issue the order
6 required under the agreement and requested in
7 FPL's petition, specifically, to approve the
8 agreement and the buy-out of the standard offer
9 contracts and to authorize the recovery of the
10 buy-out amount through the fuel and capacity
11 cost recovery clauses.

12 Now, as discussed in the staff
13 recommendation as revised, FPL has proposed and
14 your staff has recommended that you approve
15 FPL's proposal for cost recovery. FPL's
16 proposal is to recover the buy-out payment over
17 a five-year period. FPL would defer the
18 beginning of the five-year recovery period for
19 one year so that recovery would not begin until
20 January 1st of 2002.

21 As your staff has noted, the treatment of
22 the buy-out payment as a base rate regulatory
23 asset in 2001 will require FPL to forgo revenue
24 of roughly 23-1/2 million in the year 2001.

25 In addition, Commissioners, by charging

1 interest at the commercial paper rate rather
2 than using FPL's overall rate of return on the
3 unrecovered portion, there is an additional
4 direct savings of at least 5.4 million to FPL's
5 customers in the year 2002, as noted by your
6 staff. There will be similar, albeit decreasing
7 levels of savings in each of the final four
8 years of the recovery period, and that's simply
9 because the unamortized balance to be recovered
10 will be decreasing each year.

11 As you know, these contracts were approved
12 by the Commission for cost recovery through the
13 fuel and capacity cost recovery clauses, and
14 these clauses represent a pass-through of costs,
15 and FPL does not make any profits on these QF
16 contracts.

17 We noted at the last agenda, and Chairman
18 Deason expanded upon this point, that absent
19 FPL's actions in challenging these contracts,
20 FPL's customers would be obligated today, as the
21 bondholders contend, for the full 1.1 billion
22 net present value costs of the contracts. But
23 due to FPL's actions to protect its customers
24 from the financial burden of these high cost
25 contracts, we now have the opportunity today to

1 save our customers some \$400 million on a net
2 present value basis at a cost of 222.5 million.

3 In addition, because of FPL's actions, our
4 customers have already saved over 100 million on
5 a net present value basis in payments that the
6 bondholders contend would have been made had the
7 contracts been in place over the last four
8 years.

9 Mr. Elias confirmed at the last agenda that
10 buy-out payments of this nature have previously
11 been approved by the Commission for cost
12 recovery. We would urge to you approve the
13 agreement and issue the order required under the
14 agreement and requested in our petition,
15 specifically to approve the settlement agreement
16 and buy-out of the standard offer contracts and
17 authorize the recovery of the settlement amount
18 through the fuel and capacity cost recovery
19 clauses, and in addition, to further approve
20 FPL's proposal for cost recovery as recommended
21 by your staff under Issue 2.

22 That concludes my comments. Thank you,
23 Mr. Chairman.

24 CHAIRMAN DEASON: Questions,
25 Commissioners?

1 COMMISSIONER JABER: No, Mr. Chairman. I
2 did want to take an opportunity, though, and
3 thank staff. I think the revised recommendation
4 is in response to a lot of questions I had at
5 the previous agenda. I recognize that you put a
6 lot of work into this recommendation, and I
7 thank you for that. But it has really helped me
8 understand what the cost savings are and with
9 respect to understanding what the utility will
10 forgo. I also appreciate that you added that
11 issue with respect to deferring the recovery.

12 I have one question. With approving Issue
13 2, if we do approve it today, what's left in the
14 fuel clause docket to address?

15 MR. BOHRMANN: With respect to this docket
16 here?

17 COMMISSIONER JABER: With respect to Issue
18 2.

19 MR. BOHRMANN: I believe if the order is
20 not protested, then there would be no action
21 needed on behalf of the Commission during the
22 fuel hearing.

23 COMMISSIONER JABER: I don't have any other
24 questions, Mr. Chairman. I can move staff's
25 recommendation.

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CHAIRMAN DEASON: There's a motion to
approve staff.

COMMISSIONER BAEZ: Second.

CHAIRMAN DEASON: Moved and seconded. All
in favor say "aye."

COMMISSIONER JABER: Aye.

COMMISSIONER BAEZ: Aye.

CHAIRMAN DEASON: Aye.

Show the motion is approved unanimously.
Thank you.

MR. HOFFMAN: Thank you, Mr. Chairman.

(Conclusion of consideration of Item 42.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MARY ALLEN NEEL, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter transcribed under my supervision; and that the foregoing pages numbered 1 through 8 are a true and correct transcription of my stenographic notes.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, or relative or employee of such attorney or counsel, or financially interested in the action.

DATED THIS 19th day of October, 2000.



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