



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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RECORDS AND REPORTING  
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**DATE:** DECEMBER 7, 2000

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

**FROM:** DIVISION OF ECONOMIC REGULATION (SLEMKEWICZ) JS DM  
DIVISION OF LEGAL SERVICES (C. KEATING) WCK and

**RE:** DOCKET NO. 001758-EI - REQUEST FOR AUTHORITY TO ESTABLISH  
A REGULATORY LIABILITY TO DEFER 2000 EARNINGS FOR  
DISPOSITION IN 2001 BY FLORIDA POWER CORPORATION

**AGENDA:** 12/19/00 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\001758.RCM  
ATTACHMENT IS NOT AVAILABLE

### CASE BACKGROUND

On December 6, 2000, Florida Power Corporation (FPC or the Company) submitted a request to defer 2000 earnings for disposition in 2001. This request is similar to the requests that the Company submitted in Docket No. 981635-EI to defer 1998 earnings for disposition in 1999, and in Docket No. 991695-EI to defer 1999 earnings for disposition in 2000. Those requests were approved. The 1998 and 1999 deferred earnings were subsequently applied to accelerate the amortization of the Tiger Bay regulatory asset.

DOCUMENT NUMBER-DATE

15691 DEC-78

FPSC-RECORDS/REPORTING

### DISCUSSION OF ISSUES

**ISSUE 1:** Should the Commission approve FPC's request to establish a regulatory liability to defer 2000 earnings for disposition in 2001?

**RECOMMENDATION:** Yes. The Commission should approve FPC's request to establish a regulatory liability to defer 2000 earnings for disposition in 2001. (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. The current balance is approximately \$230 million. It is expected that the regulatory asset will be fully amortized by 2007 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 2000 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 2000 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 2000 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. Additionally, FPC has proposed that the deferred earnings be included in the Company's capital structure as a separate line item using the actual interest rate applied to the deferred earnings. This is consistent with the Commission's decision in the 1999 deferral request by FPC.

Since no proposal for the disposition of the deferred 2000 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 2000 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:** Should the Commission approve FPC's request to file a proposal for the disposition of the 2000 deferred earnings by April 2, 2001?

**RECOMMENDATION:** Yes. The Commission should approve FPC's request to file a proposal for the disposition of the 2000 deferred earnings by April 2, 2001. If a proposal is not filed by that date, FPC should be directed to immediately apply any deferred 2000 earnings, plus interest, against the Tiger Bay regulatory asset. (SLEMKEWICZ)

**STAFF ANALYSIS:** In its request, FPC stated that it would file a proposal by April 2, 2001. The proposed filing date of any proposal(s) that might be offered by FPC should allow staff and the Commission time to adequately review any such proposals. The suggested April 2, 2001, filing date should 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 2001. Therefore, Staff recommends that FPC's proposed filing date of April 2, 2001 for any proposal that it intends to offer be approved. Staff further recommends that if a proposal is not filed by April 2, 2001, FPC be directed to immediately apply any 2000 deferred earnings, plus interest, to the Tiger Bay regulatory asset.

DOCKET NO. 001758  
DATE: December 7, 2000

**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** No. If no person whose substantial interest are affected by the proposed agency action files a protest within 21 days of the issuance of the order, the order will become final upon the issuance of a Consummating Order. This docket should remain open pending the review of any proposal for the final disposition of any deferred 2000 earnings. However, if FPC does not file a proposal by April 2, 2001, this docket should be administratively closed. (C. KEATING, SLEMKEWICZ)

**STAFF ANALYSIS:** At the conclusion of the protest period, if no protest is filed, the order will become final upon the issuance of a Consummating Order. This docket should remain open pending the review of any proposal for the final disposition of any deferred 2000 earnings. However, if FPC does not file a proposal by April 2, 2001, this docket should be administratively closed.



Mark A. Myers  
Vice President  
Finance

December 6, 2000

Mr. Tim Devlin, Director  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

RECEIVED  
FLORIDA PUBLIC SERVICE  
COMMISSION  
DIVISION OF  
ECONOMIC REGULATION  
00 DEC -7, PM 12:32

Re: Request for authority to establish a regulatory liability  
to defer 2000 earnings for disposition in 2001.

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 2000 system earnings may exceed the level estimated in its 2000 forecasted surveillance report submitted to the Commission last March, in large part due to reduced O&M expenses in anticipation of the impending merger with CP&L Energy, Inc. 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 2000 books and records at year-end.

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These expected additional 2000 earnings may also be of use as part of a proposal Florida Power intends to file, jointly or unilaterally, no later than early 2001 regarding certain rate and regulatory issues, including those raised in its pending earnings review proceeding, Docket No. 000824-EI. If used in this manner, customers may have the opportunity 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 2000 books and records, Florida Power would find it necessary to use the additional 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 2000 earnings to its customers, Florida Power requests Staff's assistance in obtaining authority from the Commission, before the Company's 2000 books and records must be closed, to create a regulatory liability in the amount of the additional earnings, adjusted for income taxes.<sup>1</sup> Florida Power proposes that the order granting this authority would require the Company to file, no later than April 2, 2001, 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 April 2, 2001, 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 2001 books and records. For earnings surveillance reporting purposes, Florida Power proposes that the deferred 2000 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 2000 earnings described above is consistent with the treatment recommended by Staff and approved by the Commission in response to the Company's requests to defer additional 1998 and 1999 earnings.<sup>2</sup> Florida Power believes that similar treatment of its additional 2000 earnings also warrants Staff's support and the Commission's approval because, as the Commission recognized in approving the prior earnings deferrals, it affords the opportunity to enhance the benefit to customers at no risk to the benefit currently

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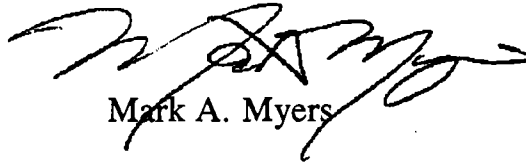
<sup>1</sup> Consistent with the notification procedure for accelerated amortizations specified in the Tiger Bay stipulation, Florida Power will notify Staff of the amount of the regulatory liability when filing its December 2000 surveillance report.

<sup>2</sup> 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.

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 December 19th Agenda Conference would be greatly appreciated, since it provides the best, and most likely the only, opportunity to obtain a final decision before the close of our 2000 books in early January.

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,



Mark A. Myers

MAM/kbd

cc: Mr. Dale Mailhot