

ORDER NO. PSC-94-0852-FOF-EI
DOCKETS NOS. 940621-EI, 930867-EI
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accrual to \$6,000,000 annually effective January 1, 1994. The proposal is only valid if accepted in its entirety.

The Sebring going concern value is currently being amortized over a four year period. If the acceleration of the Sebring amortization is insufficient to reduce the 1994 achieved ROE to 12.50%, additional storm damage expense will be recognized in order to achieve the 12.50% ROE. The cap is below the top of FPC's currently authorized range of 13.00%. Within the context of FPC's total offer and the fact that approval of the offer will save litigation costs if the order is not protested, we find the ROE cap of 12.50% and the contingent proposal to accelerate the amortization of the Sebring going concern value/recognize additional storm damage expense to be reasonable and hereby approve the proposal.

FPC has also offered to permanently increase its annual storm damage accrual from \$3,000,000 to \$6,000,000, effective January 1, 1994. The appropriate storm damage accrual level is currently under review in Docket No. 930867-EI. A study has been submitted in that docket and our review of that study indicates that an increase above the current \$3,000,000 annual accrual is needed. Accordingly, we find that FPC's proposal to permanently increase its storm damage accrual is reasonable and hereby approve the proposal.


It is therefore,

ORDERED that FPC's June 19, 1994 proposal to cap its 1994 earnings at 12.5%, apply any amount in excess of that level to the Sebring going concern amortization/storm damage expense and permanently increase its storm damage expense accrual to \$6,000,000 effective January 1, 1994 is approved. It is further

ORDERED that Docket No. 930867-EI and Docket No. 940621-EI shall be closed if no substantially affected person timely files a protest to this proposed agency action.

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By ORDER of the Florida Public Service Commission, this 13th
day of July, 1994.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on August 3, 1994.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.



**Florida
Power**
CORPORATION

JOHN SCARDINO, JR.
Vice President and Controller

June 9, 1994

Mr. Timothy Devlin, Director
Division of Auditing and Financial Analysis
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399

Re: Florida Power Financial Performance - Update

Dear Mr. Devlin:

As a result of a recent telephone conversation between Ms. Beth Salak and myself, I am submitting this correspondence in order to replace the Company's original response to Staff's concerns on FPC's financial performance, dated June 3, 1994.

Staff's proposed 12.5% cap on ROE

Florida Power will agree that the Company's regulatory return on equity (ROE) for 1994 not exceed 12.50%, calculated on an "FPSC adjusted" basis. In addition, the Company's currently authorized range of 11% - 13% for return on equity would remain intact and would revert to being the basis for measuring achieved regulatory results in calendar year 1995 and beyond. It is Florida Power's understanding from our telephone conference that all reasonable and prudent expenses would be allowed in the calculation of the return on equity even if the expense was considered non recurring, i.e. expenses recorded for early out program, and that no adjustment would be made for abnormal weather.

In the event the Company's ROE for 1994 exceeds 12.50%, the amortization of the Sebring going concern value will be accelerated. If amortization of the entire Sebring going concern value is not sufficient to reduce the 1994 achieved ROE to 12.50%, Florida Power agrees to recognize additional storm damage expense in order to achieve 12.50%. Also, it is the Company's understanding that after the December 1994 Surveillance Package is submitted, the FPSC Staff would audit the results and prepare a recommendation based on their findings.

GENERAL OFFICE

331 Thimblemill Street, Suite 100 • Fort Office Box 14042 • Ft. Lauderdale, Florida 33333-4042 • Tel: 954-472-1000 • Fax: 954-472-1001

A Florida Progress Company

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Re: Florida Power Financial Performance - Update

Staff's proposed Sebring "going concern" write-off
Florida Power will agree to accelerate the write-off of the Sebring going concern value as requested by Staff to the extent the Company's 1994 return on equity exceeds the limitation described above.

Staff's proposed storm damage accrual
Florida Power is willing to increase the annual storm damage accrual to \$6.0 million. The revised annual accrual was determined by supplementing the average expected annual storm damage from the Company's study (\$4.3 million) with the most recent 5-year average damage to the Company's system caused by acts of nature other than hurricanes (\$1.7 million). Examples of other acts of nature include tornadoes, storm of the century and the seaweed incident.

The annual accrual would become effective January 1, 1994 and would remain in place until such time as the FPSC authorizes a change in the annual accrual. The Company requests that our agreement result in the closing of Docket No. 930867-EI, Authorization to implement a self insurance reserve for storm damage.

It is the Company's intention that the above responses be considered by Staff in the aggregate and that acceptance of one response with modifications to the other responses will not be acceptable.

If you have any questions, I would be pleased to discuss them with you in greater detail. Please feel free to contact me in this regard.

Sincerely,



cc: Mr. Roger Howe, Office of Public Counsel

Attachment

FLORIDA POWER CORPORATION
SUMMARY OF FPSC CONFERENCE CALL
MAY 20, 1984

ATTENDEES

FPSC

John Scardino, Jr
David P. Davella

FPSC STAFF

Beth Selak Dale Mailhot
Ann Caussaux John Stenkewicz
Andrew Maurey Pat Lee
James Brennan Corrie Kummer

OFFICE OF PUBLIC COUNSEL

Roger Howe

A telephone conference was held in the morning of May 20 with the above listed people in attendance. The conference was requested by FPSC Staff for the purpose of identifying three major concerns affecting Florida Power's current financial performance. The Staff's request was prompted by the FPSC decision to lower TECO's allowed range on Common Equity in October 1993, as well as comparable actions with companies in the telecommunications and natural gas industries. The Staff has requested the Company to respond in writing to their proposal by Friday June 3.

The three concerns raised by the FPSC Staff are listed as follows:

RETURN ON EQUITY - PROPOSED CAP AT 12.50% (FPSC Adjusted Basis)

The Earnings Cap would only apply to calendar year 1994 results as reported in the Company's monthly surveillance package filed with the FPSC. The Company's current allowed range of ROE of 11% - 13% would remain intact. After the Company submits its December 1994 Surveillance Package, the FPSC Staff would audit the results and prepare a recommendation based on their findings. The Staff indicated that all reasonable and prudent expenses would be allowed in the calculation of the Return on Equity even if the expense was considered non recurring. In addition no adjustment would be made for abnormal weather.

FPSC Staff Position:

Florida Power's return on equity as reported on an FPSC Adjusted basis has exceeded the authorized mid point of 12% since March 1993. The Staff felt compelled to propose an Earnings Cap for Florida Power after analyzing current capital market trends and considering the outstanding earnings agreement at United Telephone and the recent action on TECO's allowed range on ROE. The Staff also indicated that a 15 basis point premium to acknowledge the increased risk between the Company and TECO was factored into the determination of the proposed 12.50% earnings cap.

FLORIDA POWER CORPORATION
SUMMARY OF FPSC CONFERENCE CALL
MAY 20, 1994

REBRING GOING CONCERN VALUE - WRITE OFF IN 1994

The expected unamortized balance of \$3.2 million at December 31, 1994 would be written off in 1994 business. The impact on return on equity is approximately 14 basis points.

FPSC Staff Position:

The Staff believes that the Going Concern Value is of little significance to the Company and should be written off in 1994 business. Also, an immediate write off would benefit future earnings and place the Company in a more competitive position.

STORM DAMAGE ACCRUAL - CURRENT ACCRUAL UNDERSTATED

The FPSC Staff presented two schedules to the Company demonstrating their concern that the current annual accrual of \$3.0 million is too low. The first scenario would require the Company to increase the annual accrual over time by \$1.3 million in order to cover the average expected annual damage of \$4.3 million. The second scenario (worst case) would require the Company to increase the annual accrual to \$10.2 million in order to cover the average expected annual damage of \$4.3 million and build a reserve equal to prior insurance level of \$90 million in 10 years.

FPSC Staff Position:

The Staff believes that a storm damage reserve should cover both operating and capital exposures and as a result constructed their schedules comparing the Company's annual accrual of \$3 million (O&M only) to the average expected annual damage amount of \$4.3 million (O&M and Capital). The Company impressed upon Staff that it was not our intention to build a reserve including capital because past practice has always focused on O&M only due to the inconsistent experience and also because incremental capital dollars incurred to restore the system would be recovered through future depreciation rates. The discussion then focused on the issue of intergenerational equity if future customers were asked to compensate the Company for new plant as well as the unrecovered portion of plant damaged due to a hurricane. The Staff is also concerned about availability of funds to restore the system and at what point the Company should consider converting from an unfunded reserve to a funded reserve. Finally, the Company reminded Staff that the decision to utilize a self insurance reserve was predicated on economics and if an annual expense increase to \$10 million were proposed, we would pursue reinstating our insurance policies at a lower annual expense.