Florida Power & Light Company, P. O. Box 029100, Miami, FL 33102-9100

FPL

AIRBORNE EXPRESS

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March 24, 1995

Ms. Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Fletcher Building
Tallahassee, Florida 32399-0850

Re: Docket No. 950001-EI

Dear Ms. Bayo:

Enclosed for filing with the Commission in Docket No. 950001-EI are the following:

FPL's Request for Confidential Classification - Fifteen copies of FPL's Request For Confidential Classification of Certain Information Reported on the Commission's Form 423-1(a) for the month of January, 1995 with Attachments B, C, D and E are enclosed. The original Request for Confidential Classification of Certain Information Reported on the Commission's Form 423-1(a) with Attachments A, B, C, D and E is enclosed. Please note that Attachment A is an unedited Form 423-1(a) and therefore needs to be treated as confidential.

If you have any questions regarding this transmittal or the information filed herewith, you may contact me at (305) 552-2724.

Sincerely,

Steven H. Feldman
Attorney

SHF:sk

Enclosures

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FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

BEFORE THE

PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased Power Cost Recovery Clause and Generating Performance Incentive Factor	Docket No. 950001-EI

REQUEST FOR CONFIDENTIAL CLASSIFICATION OF CERTAIN INFORMATION REPORTED ON THE COMMISSION'S FORM 423-1(a)

Pursuant to §366.093, F.S. and Florida Administrative Code Rule 25-22.006, Florida Power & Light Company ("FPL") requests that the Florida Public Service Commission ("Commission") classify as confidential information certain information reported on FPL's January, 1995 423-1(a) Fuel Report as delineated below. In support of its request FPL states:

1. FPL seeks classification of the below specified information as proprietary confidential business information pursuant to §366.093, F.S. In pertinent part, §366.093, F.S. provides:

> (1) * * * Upon request of the public utility or other person, any records received by the commission which are shown and found by the commission to be proprietary confidential business information shall be kept confidential and shall be exempt from s. 119.07(1).
>
> (3) * * * Proprietary confidential business information includes, but is not limited to:
>
> (d) Information concerning bids or other contractual data, the disclosure of which would impair the efforts of the public utility or its affiliates to contract for goods or services on favorable terms.

Attachment B) An edited copy of FPL's January, 1995 Form 423-1(a) with the information for which FPL seeks confidential classification edited out. This document may be made public.

Attachment C) This document is a line by line justification matrix identifying each item on FPL's Form 423-1(a) for which confidential classification is sought, along with a written explanation demonstrating that the information is: (1) contractual data, that (2) the disclosure of which would impair the efforts of the utility to contract for goods or services on favorable terms.

Attachment D) The affidavit of Dr. Pamela Cameron. Dr. Cameron's affidavit was previously filed with FPL's original Request For Confidential Classification Of Certain Information Reported On The Commission's Form 423-1(a) on March 5, 1987, in this docket. It is refiled with this request for the convenience of the Commission. Attachment E updates Dr. Cameron's affidavit.

Attachment E) The affidavit of Eugene Ungar.

5. Paragraph 3 identifies the two prongs of §366.093(3)(d), F.S., which FPL must establish to prevail in its request for confidential classification of the information identified by attachments A and C. Those two prongs are conclusively established by the facts presented in the affidavits attached hereto as Attachments D and E. First, the identified information is contractual data. Second, disclosure of the information is reasonably likely to impair FPL's ability to contract for goods and services, as discussed in Attachments C, D and E.

6. FPL seeks confidential classification of the per barrel invoice price of No. 2 and No. 6 fuel, and related information, the per barrel terminaling and transportation charges, and the per

barrel petroleum inspection charges delineated on FPL's Form 423-1(a) Fuel Report as more specifically identified by Attachments A and C.

7. The confidential nature of the No. 6 fuel oil information FPL seeks to protect is easily demonstrated - once one understands the nature of the market in which FPL as a buyer must operate. The market is No. 6 fuel oil in the Southeastern United States and that market is an oligopolistic market. See Cameron and Ungar affidavits. In order to achieve the best contractual prices and terms in an oligopolistic market, a buyer must not disclose price concessions provided by any given supplier. Due to its presence in the market for No. 6 fuel oil, FPL is a buyer that is reasonably likely to obtain prices and terms not available to other buyers. Therefore, disclosure of such prices and terms by a buyer, like FPL in an oligopolistic market, such as No. 6 fuel oil, is reasonably likely to increase the price at which FPL can contract for No. 6 fuel oil in the future. See the affidavits of Cameron and Ungar.

8. The economic principles discussed in paragraph 6 and Dr. Cameron's affidavit are equally applicable to FPL's contractual data relating to terminaling and transportation charges, and petroleum inspection services as described in E. Ungar's affidavit.

9. The Commission need only make two findings to grant confidential classification to the No. 6 fuel oil information

identified as confidential in Attachments C and D, to wit:

(a) That the No. 6 fuel oil data identified is contractual data.

(b) That FPL's ability to procure No. 6 fuel oil, terminaling and transportation services, and petroleum inspection services is reasonably likely to be impaired by the disclosure of the information identified because:

(i) The markets in which FPL, as a buyer, must procure No. 6 fuel oil, terminaling and transportation services, and fuel inspection services are oligopolistic; and

(ii) Pursuant to economic theory, a substantial buyer in an oligopolistic market can obtain price concessions not available to other buyers, the disclosure of which would end such concessions, resulting in higher prices to that purchaser.

10. The confidential nature of the No. 2 fuel oil information, identified in Attachments A and C as confidential information, is inherent in the bidding process used to procure No. 2 fuel oil. Without confidential classification of the price FPL pays for No. 2 fuel oil, FPL is reasonably likely to experience a narrowing of the bids offering No. 2 fuel oil. The range of bids is expected to converge on the last reported public price, thereby eliminating the probability that one supplier will substantially underbid the other suppliers based upon that supplier's own economic situation. See Ungar affidavit. Consequently, disclosure is reasonably likely to impair FPL's ability to negotiate future No. 2 fuel oil contracts.

11. FPL requests that the Commission make the following findings with respect to the No. 2 fuel oil information identified in attachments A and C:

a. That the No. 2 fuel oil data identified is contractual data; and

b. That FPL's ability to procure No. 2 fuel oil is reasonably likely to be impaired by the disclosure of the information identified because:

(i) the bidding process through which FPL obtains No. 2 fuel oil is not reasonably expected to provide the lowest bids possible if disclosure of the last winning bid is, in effect, made public through disclosure of FPL's Form 423-1(a).

12. Additionally, FPL believes the importance of this data to the suppliers in the fuel market is potently demonstrated by the blossoming of publications which provide utility reported fuel data from FERC Form 423. The disclosure of the information sought to be protected herein will no doubt create a cottage industry of desktop publishers ready to serve the markets herein identified.

13. FPL requests that the information for which FPL seeks confidential classification not be declassified until the dates specified in Attachment C. The time periods requested are necessary to allow FPL to utilize its market presence in negotiating future contracts. Disclosure prior to the identified date of declassification would impair FPL's ability to negotiate future contracts.

14. The material identified as confidential information in attachments A and C is intended to be and is treated by FPL as

private, and has not otherwise been publicly disclosed to the best of FPL's knowledge and belief.

WHEREFORE, FPL respectfully requests that the Commission classify as confidential information the information identified in attachments A and C which appears on FPL's unedited Form 423-1(a).

Respectfully submitted,

Date: March 24, 1995

Steven H. Feldman
Attorney
Florida Power & Light Company
P. O. Box 029100
Miami, Florida 33102-9100
(305) 552-2724
Florida Bar No. 0869181

ATTACHMENT B

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FPSC FORM NO. 423-1(a)

MONTHLY REPORT OF COST AND QUALITY OF FUEL OIL FOR ELECTRIC PLANTS
DETAIL OF INVOICE AND TRANSPORTATION CHARGES

1. REPORTING MONTH: JANUARY YEAR: 1995

2. REPORTING COMPANY: FLORIDA POWER & LIGHT COMPANY

3. NAME, TITLE, & TELEPHONE NUMBER OF CONTACT PERSON CONCERNING DATA SUBMITTED ON THIS FORM: K.M. DUBIN, REGULATORY AFFAIRS, (305)-552-4910

4. SIGNATURE OF OFFICIAL SUBMITTING REPORT: Eugene Meyer

5. DATE COMPLETED: 07-Mar-95

(A) LINE NO.	(B) PLANT NAME	(C) SUPPLIER	(D) DELIVERY LOCATION	(E) DELIVERY DATE	(F) TYPE OIL	(G) VOLUME (BBLS)	(H) INVOICE PRICE ($/BBL)	(I) INVOICE AMOUNT ($)	(J) DISCNT ($)	(K) NET AMT ($)	(L) NET PRICE ($/BBL)	(M) QUALITY ADJUST. ($/BBL)	(N) EFFECTV. PUR PRICE ($/BBL)	(O) TRANSP. TO TERM ($/BBL)	(P) ADD'L TRANS CHGS ($/BBL)	(Q) OTHER CHARGES ($/BBL)	(R) DELIVERED PRICE ($/BBL)
1	RIVIERA	TEXACO	PORT PALM BEACH	01/28/95	FO6	85074								0.0000			14.9223
2	MANATEE	COASTAL	PORT MANATEE	01/23/95	FO6	118837								0.0000			15.3402
3	TURKEY POINT	RIO	FISHER ISLAND	01/12/95	FO6	103691								0.0000			16.0369
4	MARTIN	RIO	PORT PALM BEACH	01/24/95	FO6	103147								0.0000			16.8401
5	TURKEY POINT	AMERIGAS	FISHER ISLAND	01/11/95	PRO	7	34.4257	241	0	241	34.4257	0.0000	34.4257	0.0000	0.0000	0.0000	34.4257
6	PORT MYERS	PETROLANE	BOCA GRANDE	01/13/95	PRO	6	36.9167	222	0	222	36.9167	0.0000	36.9167	0.0000	0.0000	0.0000	36.9167
7	RIVIERA	SYNERGY	PORT PALM BEACH	01/03/95	PRO	6	29.8633	179	0	179	29.8633	0.0000	29.8633	0.0000	0.0000	0.0000	29.8633
8	RIVIERA	SYNERGY	PORT PALM BEACH	01/23/95	PRO	7	32.6100	228	0	228	32.6100	0.0000	32.6100	0.0000	0.0000	0.0000	32.6100

ATTACHMENT C

Docket No. 950001-EI
March, 1995

Justification for Confidentiality for January, 1995 Report:

FORM	LINE(S)	COLUMN	RATIONALE
423-1(a)	1 - 4	H	(1)
423-1(a)	1 - 4	I	(2)
423-1(a)	1 - 4	J	(2), (3)
423-1(a)	1 - 4	K	(2)
423-1(a)	1 - 4	L	(2)
423-1(a)	1 - 4	M	(2), (4)
423-1(a)	1 - 4	N	(2), (5)
423-1(a)	1 - 4	P	(6), (7)
423-1(a)	1 - 4	Q	(6), (7)
423-1(a)	N/A	H, I, K, L, N, R	(8)

----------Rationale for confidentiality:

(1) This information is contractual information which, if made public, "would impair the efforts of {FPL} to contract for goods or services on favorable terms." Section 366.093 (3) (d), F.S. The information delineates the price FPL has paid for No. 6 fuel oil per barrel for specific shipments from specific suppliers. This information would allow suppliers to compare an individual supplier's price with the market quote for that date of delivery and thereby determine the contract pricing formula between FPL and that supplier.

Contract pricing formulas generally contain two components, which are: (1) a markup in the market quoted price for that day and (2) a transportation charge for delivery at an FPL chosen port of delivery. Discounts and quality adjustment components of fuel price contract formulas are discussed in paragraphs 3 and 4.

Disclosure of the invoice price would allow suppliers to determine the contract price formula of their competitors. The knowledge of each others' prices (i.e. contract formulas) among No. 6 fuel oil suppliers is reasonably likely to cause the suppliers to converge on a target price, or follow a price leader, effectively eliminating any opportunity for a major buyer, like FPL, to use its market presence to gain price concessions from any one supplier. The end result is reasonably likely to be increased No. 6 fuel oil prices and therefore increased electric rates. Please see Dr. Cameron's affidavit filed with FPL's Request for Confidential Classification which discusses the pricing tendencies of an oligopolistic market and the factual circumstances which identify the No. 6 fuel oil market as an oligopolistic market in the Southeastern United States. As Dr. Cameron's affidavit discusses, price concessions in an oligopolistic market will only be available when such concessions are kept confidential. Once the other suppliers learn of the price concession, the conceding supplier will be forced, due to the oligopolistic nature of the market, to withdraw from future concessions. Consequently, disclosure of the invoice price of No. 6 fuel oil paid by FPL to specific fuel suppliers is reasonably likely to impair FPL's ability to negotiate price concessions in future No. 6 fuel oil contracts.

(2) The contract data found in Columns I through N are an algebraic function of column H. That is, the publication of these columns together, or independently, could allow a supplier to derive the invoice price of oil.

(3) Some FPL fuel contracts provide for an early payment incentive in the form of a discount reduction in the invoice price. The existence and amount of such discount is confidential for the reasons stated in paragraph (1) relative to price concessions.

(4) For fuel that does not meet contract requirements, FPL may reject the shipment, or accept the shipment and apply a quality adjustment. This is, in effect, a pricing term which is as important as the price itself and is therefore confidential for the reasons stated in paragraph (1) relative to price concessions.

(5) This column is as important as H from a confidentiality standpoint because of the relatively few times that there are quality or discount adjustments. That is, column N will equal column H most of the time. Consequently, it needs to be protected for the same reasons as set forth in paragraph (1).

(6) This column is used to mask the delivered price of fuel such that the invoice or effective price of fuel cannot be determined. Columns P and Q are algebraic variables of column R. Consequently, disclosure of these columns would allow a supplier to calculate the invoice or effective purchase price of oil (columns H and N) by subtracting these columnar variables from column R.

(7) Terminaling and transportation services in Florida tend to have the same, if not more severe, oligopolistic attributes of fuel oil suppliers. In 1987, FPL was only able to find eight qualified parties with an interest in bidding either or both of these services. Of these, four responded with transportation proposals and six with terminaling proposals. Due to the small demand in Florida for both of these services, market entry is difficult. Consequently, disclosure of this contract data is reasonably likely to result in increased prices for terminaling and transportation services.

Petroleum inspection services also have the market characteristics of an oligopoly. Due to the limited number of fuel terminal operations, there are correspondingly few requirements for fuel inspection services. In FPL's last bidding process for petroleum inspection services, only six qualified bidders were found for FPL's bid solicitations. Consequently, disclosure of this contract data is reasonably likely to result in increased prices for petroleum inspection services.

(8) This information is contractual information which, if made public, "would impair the efforts of [FPL] to contract for goods or services on favorable terms." Section 366.093 (3) (d), F.S. The information delineates the price FPL has paid for No. 2 fuel oil per barrel for specific shipments from specific suppliers. No. 2 fuel oil is purchased through a bidding process. At the request of the No. 2 fuel oil suppliers, FPL has agreed to not publicly disclose any supplier's bid. This non-disclosure agreement protects both FPL's ratepayers, and the bidding suppliers. As to FPL's ratepayers, the non-public bidding procedure provides FPL with a greater variation in the range of bids that would otherwise not be available if the bids, or the winning bid by itself, were publicly disclosed. With public disclosure of the No. 2 fuel oil prices found on FPL's Form 423-1(a), the bids would narrow to a closer range around the last winning bid eliminating the possibility that one supplier might, based on his economic situation, come in substantially lower than the other suppliers. Non-disclosure likewise protects the suppliers from divulging any economic advantage that supplier may have that the others have not discovered.

Date of Declassification:

FORM	LINE(S)	COLUMN	DATE
423-1(a)	1	H - N	05/30/96
423-1(a)	2 - 4	H - N	07/31/95
423-1(a)	1 - 4	P	03/31/99
423-1(a)	1 - 4	Q	06/30/96
423-1(a)	N/A	H, I, K, L, N, R	12/31/95

Rationale:

FPL requests that the confidential information identified above not be disclosed until the identified date of declassification. The date of declassification is determined by adding 6 months to the last day of the contract period under which the goods or services identified on Form 423-1(a) or 423-1(b) were purchased.

Disclosure of pricing information during the contract period or prior to the negotiation of a new contract is reasonably likely to impair FPL's ability to negotiate future contracts as described above.

FPL typically renegotiates its No. 6 fuel oil contracts and fuel related services contracts prior to the end of such contracts. However, on occasion some contracts are not renegotiated, until after the end of the current contract period. In those instances, the contracts are typically renegotiated within six months. Consequently, it is necessary to maintain the confidentiality of the information identified as confidential on FPL's Form 423-1(a) or 423-1(b) for six months after the end of the individual contract period the information relates to.

With respect to No. 6 fuel oil price information on the Form 423-1(a) or 423-1(b) for oil that was not purchased pursuant to an already existing contract, and the terms of the agreement under which it is purchased are fulfilled upon delivery, FPL requests the price information identified as confidential be kept confidential for a period of six months after the delivery. Six months is the minimum amount of time necessary for confidentiality of these types of purchases to allow FPL to utilize its market presence in gaining price concessions during seasonal fluctuations in the demand for No. 6 fuel oil. Disclosure of this information any sooner than six months after completion of the transaction is

reasonably likely to impair FPL's ability to negotiate such purchases.
The No. 2 fuel oil pricing information appearing on FPL's Form 423-1(a) or 423-1(b), for which confidential classification is sought, should remain confidential for the time period the contract is in effect, plus six months. Disclosure of pricing information during the contract period or prior to the negotiation of a new contract is reasonably likely to impair FPL's ability to negotiate future contracts as described above.

FPL typically negotiates its No. 2 fuel oil contracts prior to the end of such contracts. However, on occasion some contracts are not negotiated, until after the end of the current contract period. In those instances the contracts are typically renegotiated within six months. Consequently, it is necessary to maintain the confidentiality of the information identified as confidential on FPL's Form 423-1(a) or 423-1(b) for six months after the end of the individual contract period the information relates to.

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DISTRICT OF COLUMBIA) ss

AFFIDAVIT
Docket No. 870001-EI

Before me, the undersigned authority, Pamela J. Cameron appeared, who being duly sworn by me, said and testified:

I. INTRODUCTION

My name is Pamela J. Cameron; my business address is 1800 M Street, N.W., Suite 600 South, Washington, D.C. 20036. I am employed by the National Economic Research Associates, Inc. (NERA) as a Senior Analyst. I received my B.S. in Business Administration from Texas Tech University in 1973, my M.A. in Economics from the University of Oklahoma in 1976 and my Ph.D. in Economics from the University of Oklahoma in 1985. My major fields of study have been Industrial Organization, Public Finance and Econometrics.

Since 1982, I have been employed by economic and regulatory consulting firms providing services relating to utility regulation. I have directed numerous projects including market analysis, gas acquisition and contract negotiation, and alternative fuels evaluation.

I have been asked by Florida Power and Light Company (FPL) to evaluate the market in which FPL buys fuel oil and to determine what impact, if any, public disclosure of certain fuel transaction data is likely to have on FPL and its ratepayers. Specifically, the data I will address is the detailed price information reported on Florida Public Service Commission Form 423s.

The impact of public disclosure of price information depends on the structure of the markets involved. In the following sections I discuss the economic framework for evaluating the structure of markets, the role of disclosure in oligopolistic markets and review the circumstances of FPL's fuel oil purchases using this framework. The final section summarizes my conclusions.

II. THE ECONOMIC THEORY OF MARKETS

Economic theory predicts that the behavior of individual firms and the consequent market performance will be determined largely by the structure of the relevant market. The structure of markets range from highly competitive to virtual monopoly depending upon such factors as the number and size of firms in the market, the heterogeneity of products and distribution channels, the ease with which firms can enter and leave the market, and the degree to which firms and consumers possess information about the prices and products.

Using these four basic criteria or characteristics, economists distinguish competitive, oligopolistic and monopolistic markets. For example, a competitive market is characterized by the following: (1) firms produce a homogeneous product; (2) there are many buyers and sellers so that sales or purchases of each are small in relation to the total market; (3) entry into or exit from the market is not constrained by economic or legal barriers; and (4) firms and consumers have good information regarding alternative products and the prices at which they are available. Under these circumstances individual buyers and sellers have only an imperceptible influence on the market price or the actions of others in the market. Each buyer and seller acts independently since those actions will not affect the market outcome.

An oligopolistic industry is one in which the number of sellers is small enough for the activities of sellers to affect each other. Changes in the output or

III. EFFECT OF DISCLOSURE IN OLIGOPOLISTIC MARKETS

A brief review of the role that secrecy plays in oligopoly theory is helpful in understanding the pricing policies of oligopolists and the predicted impact on fuel costs.

An oligopolistic market structure is characterized by competition or rivalry among the few, but the number of firms in a market does not determine conclusively how the market functions. In the case of oligopoly, a number of outcomes are possible depending upon the degree to which the firms act either as rivals or as cooperators. Sellers have a common group interest in keeping prices high, but have a conflict of interest with respect to market share.

The management of oligopolistic firms recognizes that, given their mutual interdependence, profits will be higher when cooperative policies are pursued than when each firm acts only in its own narrow self-interest. If firms are offered the opportunity to collude, oligopolistic markets will tend to exhibit a tendency toward the maximization of collective profits (the pricing behavior associated with monopoly). However, coordination of pricing policies to maximize joint profits is not easy, especially where cost and market share differences lead to conflicting price and output preferences among firms. Coordination is considerably less difficult when oligopolists can communicate openly and freely. But the antitrust laws, which are concerned with inhibiting monopoly pricing, make overt cooperation unlawful. There are, however, subtle ways of coordinating pricing decisions which are both legal and potentially effective if discipline can be maintained.

One means of coordinating behavior without running afoul of the law is price leadership. Price leadership can generally be viewed as a public signal by firms of the changes in their quoted prices. If each firm knows that its price cuts will be quickly matched by its rivals, it will have much less incentive to make them.

By the same logic, each supplier knows that its rivals can sustain a higher price quote only if other firms follow with matching prices.

Focal point pricing is another example of oligopolistic pricing that allows coordination without violating the antitrust laws. Here, sellers tend to adhere to accepted focal points or targets such as a publicly posted price. By setting its price at some focal point, a firm tacitly encourages rivals to follow suit without undercutting. The posted price published for various grades of fuel oil by region would serve as a focal point for that area. Other types of focal points include manufacture associations' published list prices or government-set ceiling prices. By adhering to these accepted targets, coordination is facilitated and price warfare is discouraged.

While oligopolists have incentives to cooperate in maintaining prices above the competitive level, there are also divisive forces. There are several conditions which limit the likelihood and effectiveness of coordination, all of which are related to the ability of a single firm to offer price concessions without fear of retaliation. They include: (1) a significant number of sellers; (2) heterogeneity of products; (3) high overhead costs coupled with adverse business conditions; (4) lumpiness and infrequency in the purchase of products; and (5) secrecy and retaliation lags.

A. <u>The Number and Size of Firms</u>

The structural dimension with the most obvious influence on coordination is the number and size distribution of firms in the market. The greater the number of sellers in a market, everything else the same, the more difficult it is to maintain a noncompetitive or above-cost price. As the number of firms increases and the market share of each declines, firms are increasingly apt to ignore the effect of their pricing and output decisions on the actions of other firms. In addition, as the

number of firms increases, the probability increases that at least one firm will have lower than average costs and an aggressive pricing policy. Therefore, an oligopolist in an industry of 15 firms is more likely to offer secret discounts and less likely to be discovered than an oligopolist in an industry of only three firms.

B. Product Heterogeneity

If products were truly homogeneous or perfect substitutes in the consumer's mind, price would be the only variable with which firms could compete. This reduces the task of coordinating, for firms must consider only the price dimension. When products are differentiated, the terms of rivalry become multidimensional and considerably more complex.

C. Overhead Costs

The ability of oligopolists to coordinate is affected in a variety of ways by cost conditions. Generally, the greater the differences in cost structures between firms, the more trouble the firms will have maintaining a common price policy. There is also evidence that industries characterized by high overhead costs are particularly susceptible to pricing discipline breakdowns when a decline in demand forces the industry to operate below capacity. The industry characterized by high fixed costs suffers more when demand is depressed because of strong inducements toward price-cutting and a lower floor (marginal cost) to price decreases. (Price-cutting will be checked at higher prices when marginal costs are high and fixed costs are relatively low.)

D. Lumpiness and Infrequency of Orders

Profitable tacit collusion is more likely when orders are small, frequent and regular, since detection and retaliation are easier under these circumstances. Any decision to undercut a price on which industry members have tacitly agreed requires a balancing of probable gains against the likely costs. The gain from

cutting the price derives from the increased probability of securing a profitable order and larger share of the market. The cost arises from the increased probability of rival reactions driving down the level of future prices and, therefore, future profits. The probable gains will obviously be larger when the order at stake is large. Also, the amount of information a firm conveys about its pricing strategy to other firms in the market increases with the number of transactions or price quotes. Clearly, the less frequently orders are placed, the less likely detection would be.

E. Secrecy and Retaliation Lags

The longer the adverse consequences of rival retaliation can be delayed, the more attractive undercutting the accepted price structure becomes. One means of forestalling retaliation is to grant secret price cuts. If price is above marginal cost and if price concessions can reasonably be expected to remain secret, oligopolists have the incentive to engage in secret price shading.

Fear of retaliation is not limited just to fear of matched price cuts by other sellers in the market. A disclosure of secret price concessions to one buyer may lead other buyers to demand equal treatment. The result would be an erosion of industry profits as the price declines to accommodate other buyers or a withdrawal of price concessions in general.

The number and size distribution of buyers in the market is a significant factor where fear of retaliation is an important market element. Where one or a few large buyers represent a large percent of the market, the granting of secret price concessions to those buyers by a seller is likely to impose significant costs (that is, result in significant loss of sales) for the remaining sellers. Since disclosure of secret price concessions in this case is more likely to prompt immediate reaction than would knowledge of price concessions to smaller, insignificant firms.

it follows that rather than risk an unprofitable price battle firms may cease offering concessions.

It is not in the long-run interest of the firm considering price concessions to initiate price cuts which would lead to lower market prices generally or ruinous price wars. If knowledge of price concessions leads other sellers to reduce price accordingly, the price-cutting firm will lose the market share advantage it could have gained through secret price shading. Industry profits will be lower due to the lower price levels. Therefore, given that any price concessions will be disclosed, the most profitable strategy is more likely to be to refrain from offering price concessions. Eliminating opportunities for secret action (by disclosing price, for example) would greatly reduce the incentive to oligopolists to offer price concessions.

IV. MARKET EVALUATION

After reviewing the theoretical criteria used by economists to evaluate market structure with FPL personnel knowledgeable in the area of fossil-fuel procurement, I requested and was provided with essential market data necessary to analyze the market in which FPL purchases No. 6 fuel oil (resid). These data, together with other published information, were used to determine the structure of the market.

A. Market Structure

The product under consideration is resid and its primary purchasers are utilities. FPL is located in the Southeast and, because of its geographical location, purchases resid primarily from refineries in the Gulf Coast area or the Caribbean. Transportation costs limit the market to these areas, although it may be possible to pick up distressed cargoes from other locations on the spot market. Other major purchasers of resid from the Gulf Coast and Caribbean are utilities in the

Northeast. Due to the additional transportation costs, however, utilities in the Southeast would be unlikely to purchase resid from northeastern refineries. The Northeast does not have adequate refinery capacity to meet the demand in that area and is, therefore, a net importer of resid from the Gulf Coast and foreign suppliers. Therefore, the Northeast and Southeast are separate, but related, markets.

FPL purchases resid in very large quantities, usually in barge or ship lots (100,000 to 200,000 barrels or more). In 1986, FPL purchased 25,460,637 barrels of low-sulfur resid, the majority of which (68 percent) was under medium-term (one- to two-year) contracts. The remainder was purchased on the spot market. There are very few buyers of resid in the market who purchase quantities approaching the levels consumed by FPL. Table 1 shows the relative size of purchases for the major consuming utilities in the Southeast and the Northeast. Of the 10 utilities who had purchases of more than 500,000 barrels per month for the July through September 1985 period, FPL is clearly the single most important buyer in terms of size. Only one of the other utilities is located in the Southeast.

The entry requirements for sellers in this market are substantial. Sellers must be capable of meeting all of the utility's specifications including quantity and quality (for example, maximum sulfur, ash and water content). Suppliers must either refine or gather and blend cargoes from refineries to marketable specifications.

The capital requirements associated with building or buying a refinery are certainly substantial. Another viable option for entry into this market would be as a reseller, blender or trader. All of these participation levels would require a financial position in the oil to be sold. At this level, the entrant would gather cargoes from refiners or other traders and blend (if required) to marketable specifications. The primary facilities requirement would be storage tanks to hold oil for resale or to blend cargoes. Assuming the entrant intends to sell to utilities,

the minimum purchase quantity would be approximately 100,000 to 110,000 barrels. This would represent one barge lot. It is possible to lease tanks with agitators for blending. The most flexible approach would be to lease a 250,000 barrel tank. This would accommodate two barge loads or one medium capacity vessel. The cost for 250,000 barrels of leased storage would be approximately $0.01 per barrel per day or $0.30 per barrel per month. Total tank cost (assuming full utilization) would be approximately $75,000 per month.

The prospective reseller would also need to have open lines of credit to finance oil purchases until payment was received from the customer. Assuming the entrant intended to move a minimum of 1,000,000 barrels per month, it would be necessary to finance approximately $15,000,000 for 35 to 40 days.

Although the current barriers to entry into this market as a refiner or reseller are substantial, they would be even higher except that the depressed state of the oil industry has created surplus refinery capacity and increased the storage tank capacity available for lease. The cost of these facilities will increase as the oil industry improves and the current surplus availability diminishes. Thus, it is reasonable to anticipate that future entry conditions will be more, rather than less, restrictive.

A new company could also enter the market as a broker selling small cargo lots to utilities. In this case, the broker would not have to take a financial position with the product and would act as a middleman between refiners and/or resellers and customers. The primary barrier to entry at this level would be the need to have established contacts with refiners, traders and potential customers normally active in the market. However, this may not be a very viable approach if an entering company expects to make utility sales. For example, FPL has informed

me that they are hesitant to deal with a broker who does not actually hold title to the oil being sold as this would be considered a high-risk source.

Table 2 presents a list of currently active firms capable of supplying resid to the southeastern utility market on a contract basis. This list represents the firms presently capable of supplying the southeastern utility market. Some of these firms also supply resid to the market in the Northeast. The list of potential contract suppliers to FPL is somewhat shorter. For example, because of the low-sulfur requirement, Lagoven S.A. is not a present supplier to FPL, but could supply other area utilities with less restrictive sulfur specifications. Lagoven refines Venezuelan crude oil which has a high-sulfur content. Others, such as Sergeant Oil and Gas Company and Torco Oil Company, sell primarily to U.S. Gulf Coast resellers, but could supply utilities that have their own transportation and buy in sufficiently large quantities. In its last request for bids to supply requirements for 1987 and/or 1988, FPL received 12 proposals. Under circumstances where only 12 to 20 firms compete for sales in a market dominated by a few large purchasers, each firm will be concerned with the actions or potential reactions of its rivals. The loss of a large sale, such as an FPL contract, would undoubtedly have a significant effect on the market share of that firm.

Some refiners or resellers, though not ordinarily capable of or willing to commit the resources necessary to meet utility specifications in order to compete in the contract market for low-sulfur resid, may be potential spot market suppliers. Table 3 lists firms in this category. The number of firms in this category is also small enough that they must be aware of and consider the prices offered by the others in their decisionmaking process.

The primary characteristic which distinguishes oligopolistic markets is the interdependence of the sellers in the market. Clearly, in view of the relatively

small number of sellers, the restrictions on entry and the small number of large buyers, the bids and prices offered by one fuel oil supplier will have an effect on the pricing policy and the quantity sold by the remaining sellers. A firm wishing to sell resid to FPL in this market cannot ignore the actions or pricing decisions of other firms and reasonably expect to profit in the long term.

B. Effect of Disclosure

In Section III, the role of disclosure and the factors conducive to price-cutting in oligopolistic industries was discussed. The analysis indicates that the factors which facilitate secret discounting are also present in the southeastern market for resid. As discussed, there are currently 12 to 20 firms capable of supplying resid in this market. Resellers or brokers will have different cost structures than refiners. The oil industry is typically classified as a high overhead cost industry. Contracts for resid are large and infrequent. The probable net gains from discounting are greater where orders are large and infrequent. In the absence of public disclosure, price concessions could reasonably be expected to remain secret for at least one to two years under a long-term contract. And finally, the expected gains to undercutting the industry price to a large buyer such as FPL would be large if secrecy could be assumed. All of these market characteristics which are present in the southeastern resid market are conducive to the granting of price concessions. A limiting factor, however, may be disclosure or the lack of secrecy since price concessions to a singular large buyer such as FPL could mean a significant loss of sales for the remaining sellers.

The analysis of the fuel market in which FPL competes indicates that sellers have a strong incentive to grant price concessions, but are most likely to grant them only if secrecy can be assured.

V. CONCLUSION

Theory predicts that to the extent fuel supplies and services are purchased in oligopolistic markets, public disclosure of detailed pricing information will greatly limit opportunities for secret price concessions. This theory is even stronger when applied to a large buyer in relation to the size of the market. My analysis of the actual market indicates that FPL is a very large buyer purchasing fuel oil in an oligopolistic market where interdependence is a key characteristic. It follows that the expected consequence of greater disclosure of the details of fuel transactions is fewer price concessions. Price concessions in fuel contracts result in lower overall electricity cost to ratepayers. Consequently, public disclosure is likely to be detrimental to FPL and its ratepayers.

Pamela Cameron
PAMELA J. CAMERON

Sworn before me this 4th day of March, 1987 in the District of Columbia.

Rozalind Brown
NOTARY PUBLIC

My commission expires Sept 30, 1989.

NORTHEASTERN AND SOUTHEASTERN UTILITIES CONSUMING APPROXIMATELY 500,000 BARRELS PLUS PETROLEUM PER MONTH

July through September 1985

Utility/Month	Number of Delivery Points (1)	State (2)	Barrels Purchased (3)	Average Sulfur Content (Percent) (4)
Florida Power and Light Company				
July	8	Florida	2,920,000	0.83%
August	9	Florida	1,088,000	0.84
September	9	Florida	1,294,000	0.81
			5,302,000	
Canal Electric Company				
July	1	Massachusetts	868,000	2.03
August	1	Massachusetts	1,095,000	2.09
			1,963,000	
Central Hudson Gas and Electric Company				
July	2	New York	902,000	1.32
August	2	New York	1,012,000	1.31
September	2	New York	592,000	1.23
			2,506,000	
Commonwealth Edison Company				
July	8	Illinois	547,700	0.67
Connecticut Light and Power Company				
August	3	Connecticut	696,000	0.99
Consolidated Edison Company of New York				
July	9	New York	1,220,000	0.29
August	9	New York	848,000	0.29
September	8	New York	1,075,000	0.26
			3,143,000	

NORTHEASTERN AND SOUTHEASTERN UTILITIES CONSUMING APPROXIMATELY 500,000 BARRELS PLUS PETROLEUM PER MONTH

July through September 1985

Utility/Month	Number of Delivery Points	State	Barrels Purchased	Average Sulfur Content (Percent)
	(1)	(2)	(3)	(4)
Florida Power Corporation				
July	7	Florida	730,500	1.25%
September	7	Florida	643,900	1.14
			1,374,400	
Long Island Lighting Company				
July	4	New York	1,499,000	2.20
August	4	New York	1,636,000	2.20
September	4	New York	872,000	2.30
			4,007,000	
New England Power Company				
July	2	Massachusetts	591,000	1.50
September	2	Massachusetts	643,000	2.04
			1,234,000	
Pennsylvania Power and Light Company				
July	6	Pennsylvania	506,000	0.91
August	6	Pennsylvania	1,393,000	0.89
September	6	Pennsylvania	607,000	0.89
			2,506,000	
TOTAL			23,976,800	

Source: U.S. Department of Energy, Energy Information Administration, Electric Power Quarterly, Table 14, Third Quarter 1985.

POTENTIAL SOUTHEAST RESID SUPPLIERS
SPOT MARKET

Active Company	Refiner (1)	Long-Term Transportation (Own or Lease) (2)
Amerada Hess Corporation	Yes	Yes
Amoco Oil Company	Yes	Yes
Apex Oil Company	No	Yes
B.P. North America	No	Yes
Belcher Oil Company	No	Yes
Challenger Petroleum (USA), Inc.	No	No
Chevron International Oil Company, Inc.	No	Yes
Clarendon Marketing, Inc.	No	No
Eastern Seaboard Petroleum Company	No	No
Hill Petroleum Company	Yes	No
Koch Fuels, Inc.	Yes	No
Lagoven S.A.	Yes	Yes
New England Petroleum Company	No	No
Phibro Distributors Corporation	No	No
Scallop Petroleum Company	No	Yes
Sergeant Oil and Gas Company, Inc.	No	No
Taube Oil Company	No	No
Transworld Oil (USA), Inc.	Yes	No

Source: Data provided by Florida Power and Light Company.

ATTACHMENT E

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

STATE OF FLORIDA) ss
COUNTY OF DADE)

AFFIDAVIT
Docket No. 950001-EI

Before me, the undersigned authority, Eugene Ungar appeared, who being duly sworn by me, said and testified:

My name is Eugene Ungar; my business address is 9250 W. Flagler Street, Miami, Florida 33174. I am employed by Florida Power & Light Company ("FPL") as a Forecasting Specialist in the Business Systems Department. I received a Bachelor's Degree in Chemical Engineering from Cornell University in 1972. In 1974, I received a Master's Degree in Business Administration from the University of Chicago.

From 1974 to 1984, I was employed by Mobil Oil Corporation where I served as a Senior Staff Coordinator and Supervisor in the Corporate Supply & Distribution Department, and the Worldwide Refining and Marketing Division's Strategic Supply Planning and Controller's Departments in positions of increasing responsibility.

In January of 1985, I joined FPL as a Senior Fuel Engineer and was responsible for the fuel price forecasting and fuel-related planning projects.

In January of 1988, I was given the added responsibility for being Team Leader for FPL's Forecast Review Board Task Team.

In September of 1988, I was named Principal Engineer.

In June of 1989, I was given the added responsibility for the Regulatory Services Group in the Fuel Resources Department.

In July of 1991, I was named Principal Fuel Analyst.

In October of 1993, I was named Forecasting Specialist.

I have reviewed the affidavit of Dr. Pamela J. Cameron, dated March 4, 1987. The conditions cited in Dr. Cameron's affidavit, that led to her conclusion that the market in which FPL buys fuel oil is oligopolistic, are still true today. The reasons for this are as follows:

A. Table 1 attached hereto is an updated version of Dr. Cameron's Table 1 showing the relative size of residual fuel oil purchases for the major consuming utilities in the Southeast and the

Northeast. Of the 4 utilities who had residual fuel oil purchases of more than 6 million barrels in 1993, FPL is clearly the single largest buyer, especially in the Southeast.

B. Table 2 attached hereto is an updated version of Dr. Cameron's Table 2 (Contract Suppliers) and Table 3 (Spot Market Suppliers). It identifies those firms currently capable of supplying residual fuel oil to the Southeastern utility market on a contract or spot basis. Circumstances today do not require a differentiation of suppliers between the contract and spot (one delivery contract) markets. Since some of these suppliers cannot always meet FPL's sulfur specifications, the list of potential contract suppliers to FPL is somewhat shorter. In 1986, there were 23 potential fuel oil suppliers to FPL; in 1994, there are currently 29 potential fuel oil suppliers. In its current request for bids to supply a portion of FPL's fuel oil requirements under contract for the 1993 through 1995 period, FPL received 5 proposals. Under circumstances where only 25 to 30 firms compete for sales in a market dominated by a few large purchasers, each firm (supplier) will be concerned with the actions or potential reactions of its rivals.

The information shown in columns P and Q of the 423-1(a) report includes information on the terminaling and transportation markets and the fuel oil volume and quality inspection market. In 1987, FPL was only able to find eight qualified parties with an interest in bidding terminaling and transportation services. Of these, four responded with transportation proposals and six with terminaling proposals. Due to the small demand in Florida for both of these services, market entry is difficult. Consequently, disclosure of this contract data is reasonably likely to result in increased prices for terminaling and transportation services.

Petroleum inspection services also have the market characteristics of an oligopoly. Due to the limited number of fuel terminal operations, there are correspondingly few requirements for fuel inspection services. In FPL's last bidding process for petroleum inspection services in 1991, only five qualified bidders were found for FPL's bid solicitations. Consequently, disclosure of the contractual information (i.e., prices, terms and conditions) of these services would have the same negative effect on FPL's ability to contract for such services as would the disclosure of FPL's prices for residual (No. 6) fuel oil delineated in Dr. Cameron's affidavit. That is, pursuant to economic theory, disclosure of pricing information by a buyer in

an oligopolistic market is likely to result in a withdrawal of price concessions to that buyer, thereby impairing the buyer's ability to negotiate contracts in the future.

The adverse effect of making information of this nature available to suppliers is evidenced by the oil industry's reaction to publication of FERC form 423. That form discloses a delivered price of fuel oil. Because of the importance of this information to fuel suppliers, several services arose which compiled and sold this information to suppliers that are only too willing to pay. We expect that a similar "cottage industry" would develop if the FPSC 423-1(a) or 423-1(b) data were made public. Therefore, the publication of this information will be made readily available to the fuel suppliers, and this will ultimately act as a detriment to FPL's ratepayers.

The information which FPL seeks to protect from disclosure is contractual data that is treated by FPL as proprietary confidential business information. Access within the company to this information is restricted. This information has not, to the best of my knowledge, been disclosed elsewhere. Furthermore, pursuant to FPL's fuel contracts, FPL is obligated to use all reasonable efforts to maintain the confidentiality of the information identified as confidential in Attachments A and C of FPL's Request for Specified Confidential Classification.

The pricing information appearing on FPL's Form 423-1(a) or 423-1(b) for which confidential classification is sought should remain confidential for the time period the contract is in effect, plus six months. Disclosure of pricing information during the contract period or prior to the negotiation of a new contract is reasonably likely to impair FPL's ability to negotiate future contracts as described above.

FPL typically negotiates new residual (No. 6) fuel oil contracts and fuel related services contracts prior to the end of existing contracts. However, on occasion some contract negotiations are not finalized until after the end of the contract period of existing contracts. In those instances, the new contracts are typically negotiated within the next six months. Consequently, it is necessary to maintain the confidentiality of the information identified as confidential on FPL's Form 423-1(a) or 423-1(b) for six months after the end of the individual contract period the information relates to.

With respect to residual (No. 6) fuel oil price information on the Form 423-1(a) or 423-1(b) for oil that was not purchased pursuant to an already existing contract, and the terms of the agreement under

which such fuel oil is purchased are fulfilled upon delivery, FPL requests the price information identified as confidential in Attachments A and C of FPL's Request for Specified Confidential Classification be kept confidential for a period of six months after the delivery. Six months is the minimum amount of time necessary for confidentiality of these types of purchases to allow FPL to utilize its market presence in gaining price concessions during seasonal fluctuations in the demand for residual (No. 6) fuel oil. Disclosure of this information any sooner than six months after completion of the transaction is reasonably likely to impair FPL's ability to negotiate such purchases.

In summary, it is my opinion that the conditions cited by Dr. Cameron in her affidavit are still valid, and that the markets in which FPL buys fuel oil, and fuel oil related services, are oligopolistic.

In addition, this affidavit is in support of FPL's Request for Confidential Classification of No. 2 fuel oil price information found on FPL's Form 423-1(a). The No. 2 fuel oil information identified on Attachments A and C in FPL's Request for Confidential Classification is proprietary confidential business information as that term is defined in §366.093, F.S. As such, disclosure of this contractual data would impair FPL's ability to contract for No. 2 fuel oil on favorable terms in the future.

No. 2 fuel oil is purchased through a bidding process. At the request of the No. 2 fuel oil suppliers, FPL has agreed to not publicly disclose any supplier's bid. This non-disclosure agreement protects both FPL's ratepayers, and the bidding suppliers. As to FPL's ratepayers, the non-public bidding procedure provides FPL with a greater variation in the range of bids that would otherwise not be available if the bids, or the winning bid by itself, were publicly disclosed. With public disclosure of the No. 2 fuel oil prices found on FPL's Form 423-1(a), the bids would narrow to a closer range around the last winning bid eliminating the possibility that one supplier might, based on his economic situation, come in substantially lower than the other suppliers. Nondisclosure likewise protects the suppliers from divulging any economic advantage that supplier may have that the others have not discovered.

The No. 2 fuel oil pricing information appearing on FPL's Form 423-1(a), for which confidential classification is sought, should remain confidential for the time period the contract is in effect, plus six months. Disclosure of pricing information during the contract period or prior to the negotiation of a new contract is reasonably likely to impair FPL's ability to negotiate future contracts as described above.

FPL typically negotiates its No. 2 fuel oil contracts prior to the end of such contracts. However, on occasion some contracts are not negotiated until after the end of the current contract period. In those instances the contracts are typically renegotiated within six months. Consequently, it is necessary to maintain the confidentiality of the information identified as confidential on FPL's Form 423-1(a) for six months after the end of the individual contract period the information relates to. Disclosure of this information any sooner than six months after completion of the transaction is reasonably likely to impair FPL's ability to negotiate such contracts.

Further affiant sayeth naught.

Eugene Ungar

Eugene Ungar

State of Florida)
) SS
County of Dade)

The foregoing instrument was acknowledged before me this 23rd day of March, 1995 in Dade County, Florida by Eugene Ungar, who is personally known to me and who did take an oath.

Signature of Notary

Graciela A. Arias

Name of Notary

CC102412

Serial Number

Notary Public Title NOTARY PUBLIC STATE OF FLORIDA MY COMMISSION EXP.NOV. 20,1998 BONDED THRU GENERAL INS. UND.

TABLE 1

NORTHEASTERN AND SOUTHEASTERN UTILITIES PURCHASING APPROXIMATELY 6 MILLION BARRELS PLUS PETROLEUM IN 1993

Utility/Month	State	Barrels (000)	Average Sulfur Content (Percent)
Florida Power & Light Company	Florida	37,902	1.57
Canal Electric Company	Massachusetts	7,688	1.54
Florida Power Corporation	Florida	10,786	1.85
Long Island Lighting Company	New York	9,747	0.90

Source: U.S. Department of Energy, Energy Information Administration, Electric Power Monthly, April 1994, Table 65.

TABLE 2

POTENTIAL SOUTHEAST RESID SUPPLIERS

Active Company	Refiner	Previous Supplier of FPL Contract/Spot
Amerada Hess Corp.	YES	YES/YES
BP North America	YES	YES/YES
Chevron International Oil Co.	NO	NO/YES
Clarendon Marketing, Inc.	NO	YES/YES
Clark Oil Trading Company	NO	NO/YES
Coastal Fuels Marketing, Inc.	NO	YES/YES
Enjet Inc.	NO	YES/YES
Global Petroleum Company	NO	NO/YES
Internor Trade, Inc. (Brazil)	YES	NO/NO
John W. Stone Oil Dist.	NO	NO/NO
Koch Fuels	YES	NO/YES
Kerr McGee	YES	NO/YES
Las Energy Corp.	NO	NO/YES
Lyondell Petrochemical Co.	YES	NO/NO
Metallegellschaft Corp.	NO	NO/NO
Northeast Petroleum	NO	NO/NO
Petrobras	YES	NO/NO
Petrolea	NO	NO/YES
Phibro Energy Inc.	NO	NO/YES
Rio Energy International	NO	YES/YES
Stewart Petroleum Corp.	NO	NO/NO
Stinnes Interoil, Inc.	NO	YES/YES
Sun Oil Trading Company	YES	NO/NO
Tauber Oil Company	NO	NO/YES
Texaco	YES	NO/YES
Tosco Oil Company	YES	NO/YES
Transworld Oil USA	YES	NO/NO
Trintoc	YES	NO/NO
Vitol S.A. Inc.	NO	NO/YES

Source: Data provided by Florida Power & Light Company (March 7, 1995)

Note: 1) This table serves as the list for both contract and spot suppliers (Table 2 & Table 3)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Florida Power & Light Company's Request for Confidential Classification of the Form 423-1(a) for January, 1994, was forwarded to the Florida Public Service Commission via Airborne Express, and copies of the Request for Confidential Classification without Attachment A were mailed to the individuals listed below, all on this 24th day of March, 1995.

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Florida Public Service Commission
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Tallahassee, FL 32399

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