

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Review of the appropriate application)
of incentives to wholesale power sales by) Docket No.: 991779-EI
investor-owned electric utilities.) Filed: February 29, 1999
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**FLORIDA POWER CORPORATION'S
ANSWERS TO STAFF'S FIRST SET OF INTERROGATORIES**

FLORIDA POWER CORPORATION ("FPC") hereby submits its Answers to Staff's First Set of Interrogatories propounded on January 25, 2000, as follows:

The name, address and relationship to Florida Power Corporation of those persons providing the answers to each of the following interrogatories are as follows:

Javier J. Portuondo, Manager, Regulatory Reporting & Fuel Accounting
Karl Wieland, Manager, Financial Analysis
Larry B. Tittle, Director, Power Marketing
Jeffrey H. Foster, Director of Finance for Energy Supply

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P. O. Box 14042
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FPSC-RECORDS/REPORTING

Q.1. Please explain how FPC currently calculates the 20 percent stockholder incentive on economy energy sales. Please provide example A schedules in your explanation.

A.1. In Table 2 below you will find the relevant section of the A-6 schedule used to report the 80% ratepayer share of broker sales. The 20% shareholder incentive is calculated as follows (Table 1.):

Table 1.

		CURR MTH	
GAIN ON ECONOMY SALES		96,236.73	schedule A6 divided by .8 to grossed up gain
RETAIL PORTION	X	95.15%	current month retail rate from Fuel Revenue Spreadsheet
FPC PORTION	X	<u>20.00%</u>	Amount that goes to stockholders
NON OPERATING INCOME		<u>18,314.00</u>	this is the amount that goes to the schedule above and gets reclassified into the 421.40 GL Account which is the account below the line

Table 2.

FLORIDA POWER CORPORATION
SCHEDULE A6

POWER SOLD
FOR THE MONTH OF:
DEC 1988

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
SOLD TO	TYPE & SCHEDULE	TOTAL KWH SOLD (000)	KWH WHEELED FROM OTHER SYSTEMS (000)	KWH FROM OWN GENERATION (000)	FUEL COST (000)	TOTAL COST (000)	FUEL ADJ. TOTAL \$	TOTAL COST \$	80% GAIN ON ECONOMY ENERGY SALES
ESTIMATED		110,000	0	110,000	1,842	1,974	2,028,200	2,171,400	116,160
ACTUAL:									
Florida Power & Light Company	Schedule C	16,576		16,576	1,437	2,017	238,177	334,413	76,989
SubTotal - Gain on Economy Energy Sales		16,576		16,576			238,177	334,413	76,989

Q.2. Please provide the accounting entries reflecting FPC's current treatment of the 20 percent stockholder incentive.

A.2. Example Journal Entry:

FERC Account	Amount	FERC Acct. Description
Debit 447.50	\$18,314	Sales - Elect. Util. - Interchg. Pwr.
Credit 465.12	-\$18,314	Gain Broker Sales 20%

Q.3. Please explain how FPC documents, for auditing purposes, the gain on economy energy sales to which FPC applies the 20 percent stockholder incentive.

A.3. Each economy transaction entered into is denoted as 'Schedule-C' (Hourly Economy), or 'Schedule-X' (Next-day Economy). This identification is maintained through our trade settlement and financial reporting systems.

- Q.4. Please list and provide a brief description of each FERC schedule under which FPC currently makes economy energy sales to which FPC applies the 20 percent stockholder incentive. In your response, please provide the year FPC began applying the 20 percent stockholder incentive to sales made under each schedule and indicate when each schedule became available to FPC.
- A.4. FPC currently applies the 20 percent stockholder incentive payment to two Service Schedules associated with FPC's Contract for Interchange Service. These two agreements are Service Schedule C, "Economy Interchange Service" and Service Schedule X, "Extended Economy Interchange Service". Schedule C is used for hourly non-firm economy sales. Schedule X is similar to Schedule C however can be up to seven days duration and while the power is firmer than Schedule C it is not system capacity. These sales are priced as cost-based, split-the-savings transactions between Florida utilities. FPC began applying the 20 percent stockholder incentive in 1985. Schedule C was in effect since 1977 and Schedule X became effective in 1984.

- Q.5. Please indicate which, if any, of FPC's wholesale sales made under the FERC schedules listed in your response to Interrogatory No. 4, include a capacity component.
- A.5. Neither Service Schedule includes a capacity pricing component.

- Q.6. Please describe how sales made under the FERC schedules listed in your response to Interrogatory No. 4 are currently priced, i.e., split-the-savings, market-based pricing, or any other pricing methodology.
- A.6. All transactions are priced according to split-the-savings methodology.

Q.7. For the years 1994 through 1999, please provide FPC's annual wholesale sales, in dollars and megawatt-hours (MWh), made over the Florida Broker Network.

A.7.

Year	Sales (MWh)	Broker Revenue	80% of Profit
1994	500,759	\$9,757,622	\$1,221,981
1995	851,013	\$17,701,344	\$2,208,051
1996	318,206	\$7,227,750	\$822,210
1997	159,669	\$3,396,028	\$444,900
1998	165,875	\$3,053,922	\$432,972
1999	50,267	\$1,117,728	\$240,707

- Q. 8. For the years 1994 through 1999, please provide FPC's annual wholesale sales, in dollars and MWh, made under each FERC schedule on which FPC applied the 20 percent stockholder incentive. For each year, please indicate the portion of these sales that were made over the Energy Broker Network. For each year, please indicate the amount retained by FPC as a 20 percent stockholder incentive for wholesale sales made under each applicable FERC Schedule.
- A. 8. As discussed in FPC's response to question 4, the 20 percent incentive is only taken on Energy Broker Network transactions, FERC Schedule C and X. The majority of the sales during the time period in question were Schedule C. Please refer to response 7 and 16 for annual wholesale sales in dollars and MWh in total for Energy Broker Network transactions.

- Q.9. Please list each type of wholesale sale to which, in FPC's opinion, the 20 percent stockholder incentive should apply. In your response, please indicate the FERC schedule under which each type of sale is made.**
- A.9. With the exceptions of emergency schedules A and B, the 20% stockholder incentive should apply to all non-separated wholesale sales reported on Fuel Adjustment Schedule A-6. Limiting the incentive to specific schedules would require constant updating of the list of qualifying schedules and could result in inconsistent application between utilities that use different schedules for similar transactions or the same schedule name for different types of transactions.**

Q.10. If your response to Interrogatory No. 9 includes any FERC schedule not listed in your response to Interrogatory No. 4, please provide FPC's annual wholesale sales, in dollars and MWh, made under each such schedule for the years 1994 through 1999. For each year, please indicate the amount that would have been retained by FPC as a 20 percent stockholder incentive for wholesale sales made under each such FERC schedule.

A.10. See FPC's response to Interrogatory # 17.

The amounts listed in the response to interrogatory 17 includes small amounts of emergency schedules A and B which Florida Power proposes to exclude from the incentive. Sales are not sub-totaled by individual FERC schedule because the company does not have a data base that contains data by FERC schedule. The majority of sales today are made under FERC schedules CR-1 (Cost-based wholesale power sales tariff), MR-1 (Market-based wholesale power sales tariff), and OS (Opportunity sales tariff).

- Q11. Please identify and quantify FPC's marketing and administrative expenses directly associated with making wholesale sales under the FERC schedules listed in your response to Interrogatories No. 4 and No. 9. Please indicate where each of these costs are currently booked and how they are recovered, if at all.
- A.11. We do not track marketing and administrative costs by FERC schedule. For the power marketing organization that is described in the answer to No. 12 below the 2000 budgeted expense is \$2.5 million. The Risk Management department budget is \$0.4 million and the Back Office budget is \$0.5 million. Additionally, members of the Controller's department provide administrative support to Power Marketing. These costs have not been quantified. All of the costs incurred above are classified as base operations and maintenance expense and are included for earnings surveillance reporting.

Q.12. Please describe the organizational structure of FPC's wholesale power marketing department. In your response, please provide the following: the total number of employees in the department; a list of each position in the department, including the salary and responsibilities associated with each position; the number of employees in the department devoted to marketing full-time; the number of employees in the department devoted to marketing part-time; the number of employees in the department devoted to administrative/support activities full-time; and the number of employees devoted to other responsibilities and a brief statement of their responsibilities.

A.12.

Answer: The following is a breakdown of FPC's Power Marketing Department

<u>Titles</u>	<u>Count</u>	<u>Base Salary</u>	<u>Responsibilities</u>	<u>Function</u>	<u>Commitment</u>
Director	1		Manage all wholesale power marketing activity	Administrative	Full time
Staff Marketing Specialist	3		Initiate and manage long term sales contracts	Marketing	Full time
Energy Trader	2		Buy and sell power in forward markets (beyond today)	Marketing	Full time
Power Trader	5		Buy and sell power during the current day	Marketing	Full time
Energy Portfolio Manager	2		Manage cost efficient use of system generation	Support	Full time
Energy Portfolio Analyst	1		Assist Energy Portfolio Managers	Support	Full time
Systems Consultant	1		Develops and maintains computer systems and software	Support	Full time
Contract Management Specialist	1		Develop, evaluate and maintain contractual obligations	Support	Full time
Department Support Administrator	1		Provides administrative and secretarial support to Dept.	Support	Full time
	17				

Q.13. Please describe the office space and equipment that FPC currently is devoted for use by its wholesale power marketing department. If FPC does not have a separate wholesale marketing department, please describe the office space and equipment that FPC currently has devoted for use by the employees listed in your response to Interrogatory No. 12.

A.13. FPC's Power Marketing Department is located on the third floor of the Bayboro Office Building in St. Petersburg. The department is grouped together in a space of approximately 2,000 square feet. The seventeen Power Marketing employees are provided with the normal array of office equipment such as, personal computers, a fax machine, printers, telephones and office furniture. In addition, the department operates a sophisticated energy trading center which uses a semi-dedicated computer server, multi-line recorded phone system and electronic data wall information system. A variety of propriety software packages have been developed and are incorporated to tie the operation together.

Q.14. Please describe how FPC's wholesale power marketing employees are compensated. In your response, please indicate whether these employees receive an incentive or a commission for making sales under any of the FERC schedules listed in your response to Interrogatories No. 4 or 9 and indicate which FERC schedules such an incentive or commission is associated with. Please explain how the incentive is calculated and booked.

A.14. FPC's Power Marketing Department utilizes an incentive program as part of its compensation program which rewards employees for creating value for both customers and shareholders. Incentives are not tied to specific FERC interchange schedules. Each year, financial targets are established related to short-term trading and long-term marketing and sales. While each employee has a vested interest in hitting all targets, the heaviest weight is placed on those areas where the employee has the most direct impact. Incentives are paid out once each year and are booked as base O&M.

Financial results are calculated based the margin produced (plus or minus) relative to cost for each transaction. For short-term sales (less than one year in duration) the basis is FPC's incremental production cost (fuel, variable O&M and purchased transmission service). The difference between the sales price and the cost basis is the margin used towards meeting the short-term department goal.

The incentive portion of an employee's total compensation varies from approximately 30% for traders to 8% for administrative personnel. The amount earned by an employee depends on three things: the amount of salary "at risk", the relative weight of each goal for that employee, and the financial results of the department.

For example, assume that a trader earns a base salary of \$50,000 and has an additional 20% salary at risk. Further, assume his incentive is based on a weight of 75% related to short-term trading and 25% related to long term marketing and sales. If the department achieves 100% of its short-term goal and 80% of its long-term goal, the employee's incentive pay will be \$9,500.

- Q.15. If the Commission approves a reward/penalty mechanism for economy energy sales, please indicate how, in FPC's opinion such a mechanism should be designed.**
- A.15. The existing mechanism of sharing the profits and losses on an 80%/20% basis between ratepayers and shareholders should be applied to all qualifying sales. Similarly, shareholders should absorb 20% of any losses resulting from such sales. The incentive should continue to be booked below the line.**

Q.16. Please state the total dollars booked below the line by FPC as a result of the 20 percent stockholder incentive since it was approved in 1984.

A.16.

Year	Amount	Year	Amount	Year	Amount	Year	Amount
1984	None	1988	\$570,931	1992	\$235,700	1996	\$194,118
1985	\$518,301	1989	\$288,036	1993	\$213,382	1997	\$107,494
1986	\$866,462	1990	\$480,898	1994	\$294,491	1998	\$104,250
1987	\$688,123	1991	\$353,262	1995	\$530,892	1999	\$57,620

Q.17. Please provide FPC's annual non-separated wholesale sales, in dollars and MWh, for the years 1994 through 1999.

A.17. Please refer to question #7 for broker transactions and refer to the table below for non-broker transactions.

Year	Sales (MWh)	Non -Broker Revenue
1994	19,692	\$890,030
1995	205,689	\$4,448,480
1996	300,776	\$7,294,066
1997	522,157	\$16,235,094
1998	1,358,875	\$43,097,864
1999	1,539,264	\$47,250,352

Q.18 Please provide the FPC's annual economy energy purchases, in dollars and MWh, for the years 1994 through 1999.

A.18

Year	Purchases (MWh)	Broker & Non - Broker Economy Energy Purchases
1994	1,459,939	\$36,713,946
1995	492,009	\$13,870,448
1996	1,392,256	\$40,131,819
1997	1,665,662	\$45,795,053
1998	838,773	\$39,732,478
1999	532,868	\$23,073,045