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**Florida
Power**
CORPORATION

JAMES A. MCGEE
SENIOR COUNSEL

November 14, 1996

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 960001-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket are an original and fifteen copies of the Posthearing Statement of Florida Power Corporation.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3.5 inch diskette containing the above-referenced document in WordPerfect format. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

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A Florida Progress Company

CERTIFICATE OF SERVICE

Docket No. 960001

I HEREBY CERTIFY that a true and correct copy of the Posthearing Statement of Florida Power Corporation has been sent by regular U.S. mail to the following individuals this 14th day of November, 1996:

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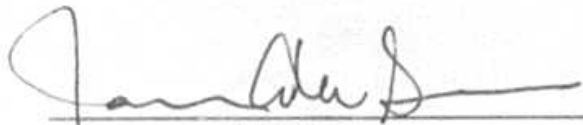
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased Power Cost
Recovery Clause with Generating
Performance Incentive Factor.

Docket No. 960001-EI

Submitted for filing:
November 14, 1996

**POSTHEARING STATEMENT OF
FLORIDA POWER CORPORATION**

Florida Power Corporation (FPC), pursuant to Rule 25-22.056, Florida Administrative Code, hereby submits its Posthearing Statement with respect to Issue 9 at the August 29, 1996 hearing concerning the appropriate use average versus incremental cost pricing for fuel cost recovery purposes. In support hereof, FPC states as follows:

Issue 9 is set forth in the Prehearing Order as follows:

Should an electric utility be permitted to include, for retail fuel cost recovery purposes, fuel cost of generation at any of its units which exceed, on a cents-per-kilowatt-hour basis, the average fuel cost of total generation (wholesale plus retail) out of those same units?

**** Summary of FPC Position**

For non-separated wholesale sales, incremental fuel costs may be included if all non-fuel revenues are also included. For separated sales, fuel costs should be assigned consistent with the assignment of fixed costs. Most

DOCUMENT NUMBER-DATE
12135 NOV 14 96
FPSC-RECORDS/REPORTING

importantly, the Commission should provide policy guidance so that all utilities may compete for wholesale sales under the same rules.

Discussion

The wholesale electric power market has become increasingly more competitive to the point where it should now be viewed as incremental (or discretionary) business rather than traditional requirements business. Tr. 153. It is important, therefore, that utilities have the flexibility to price their product at the level necessary to compete for this business, so long as the price exceeds the incremental cost of the sale. This same concern was recently addressed by the Commission for certain "at risk" customers within the retail sector when it approved Gulf Power's flexible pricing Commercial/Industrial Service Rider. See, Order No. PSC-96-1219-FOF-EI, issued September 24, 1996 in Docket No. 960789-EI. From a ratepayer standpoint, the ability to attract new incremental sales or retain existing incremental sales will result in a greater contribution to a utility's fixed costs and a lower cost service than would exist in the absence of these sales. There is no genuine disagreement on this point.

The issue in this case is how the *costs* of these sales, however they may be priced, should be assigned for cost recovery purposes to ensure that the benefits they provide are fairly shared between the retail and wholesale jurisdictions and between ratepayers and shareholders. Tr.159-60, 163, 174. To be clear, Florida Power is not suggesting that utilities regulated by this Commission be required to

price wholesale sales using average fuel costs and thus incur a competitive disadvantage against out-of-state utilities and power marketers who are under no such restriction. As FPC witness Wieland emphasized on cross-examination:

What I'm really saying is that a utility can make sales at whatever price they want to. I think it's -- what the issue is, what costs does this Commission assign to those sales and do they automatically get to recover any discounts [through] the fuel clause.

Tr. 160.

With respect to the issue of cost assignment, Florida Power submits that in the case of sales that have not been separated (*i.e.*, where the retail jurisdiction supports all of the costs associated with the sale), all of the revenues from the sale, fuel and non-fuel, should be flowed directly back to the retail ratepayers through the fuel and capacity cost recovery clauses.¹ Tr. 164. This is consistent with the Commission's long-standing practice for the treatment of such non-separated sales as economy transactions occurring on the Florida Broker system and does not appear to be a point of controversy.

In the case of separated sales, the focal point in this case, if the fixed costs of the sale have been assigned to the wholesale jurisdiction on an average embedded cost basis, then Florida Power believes fuel costs should be assigned on the same basis. Tr. 150. For new separated sales not reflected in a utility's

¹ The flow-back of non-fuel revenues is, of course, net of any incentives provided by the Commission. Although it is beyond the scope of this proceeding, Florida Power believes the Commission should consider expanding the use of a Broker-type incentive to other beneficial short-term economy sales for which the utility receives no other form of compensation.

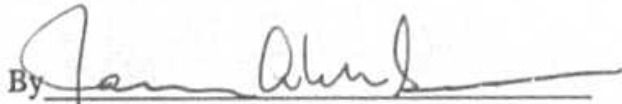
base rates, flowing incremental or below average fuel costs through the fuel adjustment clause (which effectively assigns those below average costs to the sale), shifts the benefit of the sale to the shareholder at the expense of the ratepayer until such time as base rates are reset.²

Mr. Wieland stressed that while he believes the approach to fuel cost assignment suggested by Florida Power is the proper method, it is not "the only method that works or makes economic sense." Tr. 154-55. More specifically, Florida Power does not contend that the practice employed by Tampa Electric is necessarily wrong, only that it is very different from that followed by Florida Power. Tr. 178-80. As a result, Florida Power finds itself competing with other utilities for wholesale business feeling obliged to follow a more restrictive practice than other utilities may be following, creating the proverbial "unlevel playing field." Tr. 155. For this reason, Florida Power believes it to be critically important for the Commission to provide policy guidance regarding the proper treatment of sales priced at below average cost so that Florida Power and other utilities can compete under the same set of rules. Tr. 155, 177. Naturally, if the Commission finds that the practice currently employed by Tampa Electric is proper, then Florida Power intends to employ it as well. Tr. 178-79.

² In considering Gulf Power's proposal to offer below average cost rates to "at risk" customers under its CIS Rider, the Commission required Gulf to apply the revenues received from these customers first to the fuel and other adjustment clauses to ensure that other retail customers do not subsidize these sales through higher adjustment clause charges. Order No. PSC-96-1219-FOF-EI at p. 3.

Respectfully submitted,

OFFICE OF THE GENERAL COUNSEL
FLORIDA POWER CORPORATION

By 

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