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**Florida
Power**
CORPORATION

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September 18, 1997

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. 970001-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket are an original and ten copies each 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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cc: Parties of record

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CERTIFICATE OF SERVICE

Docket No. 970001

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 18th day of September, 1997:

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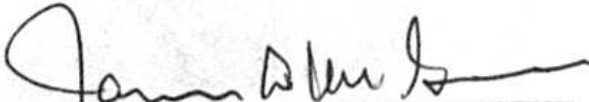
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In re: Fuel and Purchased Power
Cost Recovery Clause with
Generating Performance Incentive
Factor.

Docket No. 970001-EI

Submitted for filing:
September 19, 1997

**POSTHEARING STATEMENT OF
FLORIDA POWER CORPORATION**

Florida Power Corporation ("Florida Power" or "FPC"), pursuant to direction of the Commission at the August 14, 1997 hearing in this docket, hereby submits its Posthearing Statement on Issues 9 - 12 identified in Prehearing Order No. PSC-97-0976-PHO-EI regarding the proper treatment of transmission costs associated with economy broker transactions.

Statement of General Position

The following key points summarizes Florida Power's general position on the treatment of transmission costs associated with economy broker transactions.

- Imputed transmission revenues from sales under pre-July 1996 agreements should be flowed through the fuel clause since they are simply the result of a reclassification, not new revenues.
- Additional transmission revenues that are actually collected (as opposed to the imputed) should continue to be classified as base rate operating revenues, consistent with the treatment of all other wheeling revenues.
- All transmission revenues (imputed, as well as collected) should be jurisdictionalized using a transmission separation factor.
- Utilities should continue to recover the total transaction cost (including all transmission charges) of economy purchases through the fuel clause to insure the lowest cost transaction takes place.

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[Note: FPC will provide a summary of its position on each issue. However, because of the interrelationship that exists between these issues, FPC will address the issues in a single discussion section to avoid unnecessary repetition.]

Issues and Summary Positions

ISSUE 9: How should the transmission costs be accounted for when determining the transaction price of an economy, Schedule C, broker transaction between two directly interconnected utilities?

**** FPC:** For economy sales made pursuant to agreements executed prior to July 9, 1996, FERC requires the transaction cost to be unbundled into generation and transmission components, with no increase in the total transaction cost. For sales made pursuant to new agreements executed after that date, a separate transmission charge should be added to the transaction price.

ISSUE 10: If the cost of transmission is used to determine the transaction price of an economy, Schedule C, broker transaction between two directly interconnected utilities, how should the costs of this transmission be recovered?

**** FPC:** For sales under pre-existing (pre-July 1996) agreements, where there is no separately added transmission charge, appropriate jurisdictional transmission revenues should continue to be credited to the fuel clause. For sales under new agreements, where a transmission charge is added, transmission revenues should be treated as above-the-line base rate revenue, as are all other transmission revenues. For purchases, the total transaction cost, including transmission charges, should continue to be recovered through the fuel clause.

ISSUE 11: How should the transmission costs be accounted for when determining the transaction price of an economy, Schedule C, broker transaction that requires wheeling between two non-directly interconnected utilities?

**** FPC:** Third-party transmission costs should continue to be added to the broker transaction price to determine the purchaser's total price.

ISSUE 12: If the cost of transmission is used to determine the transaction price of an economy, Schedule C, broker transaction that requires wheeling between two non-directly interconnected utilities, how should the costs of this transaction be recovered?

**** FPC:** The total transaction cost (including the seller's and any third-party's transmission costs) paid by the purchaser should continue to be recovered through the fuel clause. Transmission revenues received by the third-party utility should continue to be credited as an above-the-line base rate revenue.

Discussion

The preceding four issues can be distilled down to two basic considerations: (1) the effect of FERC mandated transmission costs on the price of economy broker transactions; and (2) the treatment of these transmission costs for cost recovery purposes (essentially Issues 9 and 10). The recent imposition of transmission charges by the seller of economy power does not alter the treatment of wheeling charges for a transaction between two non-directly interconnected utilities (Issues 11 and 12). Tr.67.

Background

The impetus for the Commission's investigation into the proper treatment of transmission costs associated with economy broker transactions stems from the recent "open access" policy adopted by the Federal Energy Regulatory Commission ("FERC") in Orders 888 and 888-A. These orders require that a utility recognize the utilization of its transmission system when making off-system sales on the same basis as any other utility with access to its system. Tr. 58. To accomplish this, FERC required that transmission costs previously embedded in a utility's sales price be "unbundled" and charged at the same rate it charges others using its transmission system. FERC established two categories of sales to implement this requirement.

The first category, a transition phase, applies to sales made under interchange agreements entered into before July 9, 1996 ("pre-existing agreements"). Utilities were required to modify these agreements before January 1, 1997 by unbundling the existing charges into separate generation and transmission components. Florida Power interprets this requirement as prohibiting any increase in the total charge due to unbundling. Tr. 72, 90. The

result, therefore, is a fictional unbundling since there are no transmission costs "bundled" into the existing charge. In actuality, it is simply a reclassification of a portion of the existing margin on the sale into an imputed transmission charge. Tr. 66, 69. All of Florida Power's economy broker sales are currently made under pre-existing agreements. Tr. 89.

The second category applies to sales made under interchange agreements executed after July 9, 1996 ("new agreements"). This category will eventually control all economy sales as utilities' pre-existing agreements are replaced. Economy sales made under these new agreements will include a separately determined "open access" transmission charge which, unlike pre-existing agreements, will be added to the traditional split-the-savings broker charge. Tr. 58-9.

The effect of transmission costs on the price of broker transactions

Florida Power believes the distinction between economy sales made under pre-existing agreements and new agreements is important in determining the effect of transmission costs on the price of economy broker transactions. For sales made under pre-existing agreements, FERC's unbundling requirement is transparent to the broker and has no effect on the transaction price; the buyer's cost and Florida Power's revenues remain the same as before Order 888. Tr. 66, 84. The only difference is internal to Florida Power, in that it now records a portion of the revenues into a separate transmission subaccount of Account 447, Sales for Resale. Tr. 59.

For economy sales made under new agreements, however, the addition of a discrete transmission charge on top of the traditional split-the-savings broker charge will result in a higher overall transaction price. Tr. 59. The effect is similar to that of a conventional economy sale between two non-directly interconnected utilities, where the buyer's overall transaction price is the sum of its broker charge from the seller and its transmission charge from the wheeling utility.

The treatment of transmission costs for cost recovery purposes

The distinction between economy sales made under pre-existing agreements and new agreements is equally important in determining the proper treatment of transmission costs for cost recovery purposes. In the case of sales made under pre-existing agreements, Florida Power believes that the jurisdictional portion of

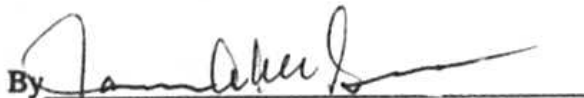
the revenues from these sales should continue to be credited to the fuel clause as before. Since the "unbundling" of transmission costs into a separate charge is actually only a reclassification of the previous charges, with no new revenues resulting, there is no apparent reason to reduce the benefit of economy sales to the ratepayers because of this cosmetic change. Tr. 69. The only minor, but important, difference in cost recovery is that before unbundling, all economy sales revenues were jurisdictionalized using an energy-related separation factor (in Florida Power's case, approximately 95%). Now that a portion of these revenues have been classified as transmission, they must be jurisdictionalized with a transmission-related separation factor (about 75% for Florida Power) before being credited to the retail fuel clause. Tr. 60, 66, 85-6.

In the case of economy sales made under new agreements, a new "open access" transmission charge will be added to (instead of imputed from) the standard split-the-savings charge. This new charge for economy sales will produce additional transmission-related revenues which should be treated the same for cost recovery purposes as any other transmission revenues received by a utility for the use of its transmission system, *i.e.*, as above-the-line base rate operating revenue. Tr. 67-8. The clearest example of this is the above-the-line treatment given to transmission revenues received by a wheeling utility for an economy transaction between two non-directly interconnected utilities. Tr. 70.

Irrespective of the changes brought about by FERC Order 888, it remains essential that the purchaser of economy energy be allowed to recover its full transaction cost, including all transmission charges from the selling and, if applicable, wheeling utilities. This is necessary to ensure that only economy transactions with the lowest overall cost take place. Tr. 87-8.

Respectfully submitted,

OFFICE OF THE GENERAL COUNSEL
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