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ORIGINAL

September 19, 1997

HAND DELIVERED

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

Re: Fuel and Purchased Power Cost Recovery Clause
with Generating Performance Incentive Factor;
FPSC Docket No. 970001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket, on behalf of Tampa Electric Company, are the original and ten copies of each of the following:

1. Initial Brief of Tampa Electric Company. - 09563-97
2. Tampa Electric Company's Post-Hearing Statement of Issues and Positions. _____ 09564-97

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

ACK _____ Thank you for your assistance in connection with this matter.

AFA *J. Handover*

APP _____

CAF _____

CMU _____

CTR _____

EAG JDB/pp
Enclosures

LEG 1

LIN 3 cc: All Parties of Record (w/enc.)

OPC _____

RCH _____

SEC 1

WAS _____

OTH _____

Sincerely,

James D. Beasley
James D. Beasley

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of Fuel)
and Purchased Power Cost)
Recovery Clause and)
Generating Performance)
Incentive Factor.)

DOCKET NO. 970001-EI
FILED: September 19, 1997

INITIAL BRIEF OF TAMPA ELECTRIC COMPANY

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I. Introduction

This brief addresses issues 9 through 12 identified in the Prehearing Order with respect to the proper treatment, for retail ratemaking purposes, of the transmission revenue associated with economy energy sales made through the Florida Broker system. In light of the Federal Energy Regulatory Commission's ("FERC") requirement that transmission revenues be separately identified and accounted for as third party transmission revenues and this Commission's practice of treating such revenues as an above the line credit to operating revenue, Tampa Electric urges this Commission to be consistent in specifically applying this same treatment to Broker-related transmission revenues.

II. Pursuant to FERC Order Nos. 888 and 888A, Tampa Electric must impute transmission revenues to its broker sales and account for these revenues as a revenue credit in its next transmission rate case before the FERC

In order to facilitate the development of a competitive market for wholesale power, the FERC, through Orders 888 and 888A, has required transmission owners to open up their transmission system to potential users on a non-discriminatory basis. Each public utility was required to unbundle the transmission and ancillary charges from its economy sales to all new customers, effective July 9, 1996, and under all existing interchange contracts on January 1, 1997 (Tr. 221, 9-13). In order to ensure the existence of a "level playing field," FERC required each jurisdictional utility owner of transmission facilities to sign a transmission service agreement

with itself under which it must take service under its own unbundled transmission tariff. Under this regulatory structure, the utility must charge itself, at tariffed transmission rates, for the transmission of power from its production capacity to the edge of its system for delivery to the buyer in a Broker transaction (Tr. 221,13-23).

FERC further requires that the transmission revenue identified above be treated like any other third-party transmission revenue and that it be recorded in a separate account. All transmission revenue derived from short-term transaction of less than one year must be treated as a revenue credit. This revenue credit has the effect of reducing the utility's revenue requirement in its next transmission rate proceeding before the FERC (Tr.222, 19-21; Tr. 223, 8-11).

III. Tampa Electric's treatment of transmission revenue in the calculation of the split-the-savings price for broker transactions is entirely consistent with FERC's requirements

While there is some confusion in the record with regard to how transmission costs should be reflected in the split-the-savings pricing for broker transactions, Tampa Electric respectfully suggests that this confusion is the result of the addition by some parties of transmission cost on top of the calculated split-the-savings price, and in direct contravention of FERC's pricing rules. Pricing under the Florida Broker, both before and after Orders 888 and 888A involves only incremental costs. Utilities are only permitted to include incremental fuel and any variable O&M costs in

their quotes. The sell and buy quotes are averaged to determine the transaction price for each matched transaction. On the buyer's side of the transaction, the difference between the buy quote and the transaction price represents the buyer's savings from the transaction (Tr. 267,12-25). On the seller's side of the transaction, the difference between the transaction price and the sell quote determines the margin on the sale. Since all variable costs have been covered, this margin is considered to be an overall benefit from the sale (Tr. 268,1-4).

In the wake of Orders 888 and 888A, Tampa Electric has been forced to modify its treatment of the margin associated with its broker sales. As illustrated by Exhibit 11, from the margin, revenues equal to the transmission rates are credited above the line to operating revenues. The remaining margin revenues are shared 80/20 with 80% flowing through the fuel clause to retail customers and 20% to the shareholders below the line (Tr.269, 1-6).

Tampa Electric's calculation of the transaction price is unaffected by Orders 888 and 888A. This is consistent with FERC's prohibition of the addition of transmission charges to the sale quotes or transaction prices on the broker. At Page 204 of Order 888, FERC concluded that:

In the cases cited by utilities for improved transition, the Commission prohibited the utility from charging a split the savings rate plus a contribution to fixed costs. The Commission has long allowed utilities to set their coordination rates by reference to their own costs (cost-based ceilings) or by dividing the pool of benefits (fuel cost differentials) brought by the transaction. Utilities have been free to design a rate using either method

but not both. (emphasis added)

In addition the FERC determined in Illinois Power Company, FERC 62 ¶61,147-62,062 (1993), as follows:

In Service Schedule F, Illinois Power proposes to charge a rate for economy energy transactions equal to a share of the savings plus its transmission charge of 10 mills/kwh. This is inappropriate. The Commission has long accepted split-savings rates which disregard the fixed costs of the seller, but which ensures that the customer retains at least 50% of the transaction savings. Such rates permit the seller to obtain a contribution to fixed costs in excess of 100% so long as the customer receives 50% of the savings. Illinois Power's proposed economy energy rate (allowing recovery of both a share of these savings plus a separate transmission charge) violates the Commission's pricing principals.

The FERC position effectively requires a seller on the broker to cover its transmission costs from its share of the split savings, as Tampa Electric has done, in order to ensure that the buyer receives at least 50% of the savings.

IV. Treatment of broker-related transmission revenue above the line is consistent with Commission precedent and avoids the inequities of flowing such revenues through the fuel clause

As discussed above, FERC has required utilities to treat broker-related transmission revenue as a credit above the line to operating revenue and to account for it as a revenue credit for ratemaking purpose, as they would any other third party transmission revenue. Although this Commission has not directly addressed the treatment of Broker-related transmission revenue derived from the seller's use of its own system, the Commission has ordered utilities to treat above the line and revenue credit

transmission revenues for retail ratemaking purposes in past electric rate cases. The Commission adopted this approach in Tampa Electric's most recent rate case, Docket No. 9203224-EI (Tr. 269,16-22).

Both Florida Power Corporation ("FPC") and Florida Power and Light ("FP&L") consistently credit third party transmission revenue derived from short-term firm and nonfirm sales to above the line operating revenues with this Commission's approval (Tr. 69-70; Tr. 112-113). Tampa Electric respectfully submits that there is no relevant difference between broker-related transmission revenues and transmission revenues derived from other short-term transactions which would warrant differing regulatory treatment in either case. FERC has ordered all jurisdictional utilities to assign a cost for transmission for sales whether the incumbent utility is a third party. These costs are required to be treated equally in a non-discriminatory manner. If Broker Sales were assigned a zero transmission cost, as some parties may propose, then all like transmission usage during the like period would be free, as per FERC Order No. 888. Therefore "charging" actively will protect ratepayers from potential transmission bypass.

If broker-related transmission revenues are flowed through the fuel clause, as some propose, all of the utilities would be put in jeopardy of having to revenue credit to FERC transmission customers some of the same dollars flowed through the fuel clause. This outcome would create a direct disincentive with regard to broker sales and would be inequitable. This outcome is in no one's best

interest. If, instead, Tampa Electric's proposed treatment of broker-related revenue is adopted, retail ratepayers receive the direct benefit of decreased future revenue requirements and postponement of a rate adjustment while preserving the proper incentives on the broker system in a manner which fits logically with relevant Commission precedent and practice.

V. Treatment of broker-related transmission revenue above the line creates real and tangible benefits for retail ratepayers.

Tampa Electric's proposal allows retail customers to benefit fully from broker-related transmission revenues by crediting these revenues to above the line operating revenue. This accounting treatment has the effect of both postponing the need for a rate adjustment and decreasing the resulting revenue requirement when retail rates are next adjusted on the basis of a cost of service analysis (Tr. 270,24-25; Tr. 271, 1-5). In the case of Tampa Electric, the retail customer benefit associated with above the line treatment of broker-related transmission revenue is even more immediate. The ROE sharing mechanism which is at the heart of Tampa Electric's existing rate Stipulation acts, in effect, as an instant ratemaking mechanism in that each dollar credited to above the line operating revenue increases dollar for dollar the potential for revenue sharing and refunds.

In addition, Tampa Electric's approach allocates to retail customers through the fuel clause revenues that would have been allocated to shareholders below the line under Tampa Electric's pre Order 888 methodology (Tr. 271,12-15). Attached is a copy of

Exhibit 11 which has been revised to reflect the \$3.00 transmission rate example discussed during the hearing rather than the \$1.60 transmission rate included in Exhibit 11 as initially filed. As the revised Exhibit 11 illustrates, under Tampa Electric's prior methodology, 80% of a hypothetical gain from a broker transaction, or \$4.00, would have been flowed to customers through the fuel clause and the remaining 20%, or \$1.00, would have been retained by shareholders below the line. Under Tampa Electric's proposed methodology, \$3.00 of the \$5.00 gain would be credited above the line to operating revenue, ensuring to the benefit of retail customers, as described above. Eighty percent of the remaining gain, or \$1.60, would be credited to retail customers through the fuel clause for a total benefit of \$4.60 as opposed to the \$4.00 benefit resulting from the pre Order 888 methodology. In contrast, the below the line shareholder benefit is reduced under Tampa Electric's proposed methodology from \$1.00 to \$0.40 under the example presented (Tr. 272, 5-23).

VI. Broker-related transmission costs should continue to be recovered through the fuel clause

The recovery of broker-related transmission costs by the buyer through the fuel clause is a reasonable approach and should not be changed. As Gulf witness Howell pointed out, the decision for the buyer on the broker system is relatively straightforward. The buyer will buy on the broker only if the transaction price, regardless of its components, is less expensive than the buyer's cost of generation. As long as this relationship holds true, and the buyer

retains at least 50% of the total margin, then the buyer, by definition, has captured an appropriate economic benefit for its customers (Tr. 200,12-23). The existence of benefits is not, therefore, a function of the rate components of the transaction price. Tampa Electric respectfully suggests that the current fuel clause treatment for a buyer's total transaction costs remain unchanged.

VII. Conclusion

Tampa Electric's proposed treatment of broker-related transmission revenue is fair, reasonable and consistent with Commission practice and precedent. Under this approach benefits to ratepayers are ultimately increased compared to Tampa Electric's prior methodology. In addition, the Company is allowed to avoid the potential problem of crediting dollars to retail customers which it must also credit to FERC Transmission customers. Therefore, Tampa Electric respectfully requests that its proposed treatment of broker-related transmission revenue be adopted.

DATED this 19th day of September, 1997.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of Tampa Electric Company's Initial Brief has been furnished by U. S. Mail or hand delivery (*) on this 19th day of September, 1997 to the following:

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ECONOMY SALE BY TAMPA ELECTRIC

FERC Order 888

	Before	After
Seller's Incremental Fuel Cost	\$20.00	\$20.00
Buyer's Decremental Fuel Cost	\$30.00	\$30.00
Transaction Price	\$25.00	\$25.00
 Margin	 \$ 5.00	 \$ 5.00
Transmission Rate	\$ 0.00	\$ 3.00
Net Margin	\$ 5.00	\$ 2.00

REGULATORY TREATMENT

	Before Customer	After Customer	Before	After
Revenue credited to customer through Fuel Clause (excluding gain)	\$20.00	\$20.00	--	--
Cost charged to customer through Fuel Clause	(\$20.00)	(\$20.00)	-	--
Transmission credited to above the line Operating Revenue	--	\$ 3.00	--	--
80% of margin credited to customer through Fuel Clause	\$ 4.00	\$ 1.60	--	--
20% of margin credited below the line to TEC's shareholders	---	---	<u>\$ 1.00</u>	<u>\$ 0.40</u>
Total Benefit	\$ 4.00	\$ 3.60	\$ 1.00	\$ 0.40