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ORIGINAL

GULF POWER
A SOUTHERN COMPANY

March 3, 1999

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 990001-EI
Transmission Reconsideration

Enclosed are an original and ten copies of Gulf Power Company's Post-Hearing Brief and Statement of Issues and Positions in the above docket.

Also enclosed is a 3.5 inch double sided, high density diskette containing the Brief in WordPerfect for Windows 6.1 format as prepared on a Windows NT based computer.

Sincerely,

Susan D. Ritenour

Susan D. Ritenour
Assistant Secretary and Assistant Treasurer

lw

Enclosures

cc: Beggs & Lane
Jeffrey A. Stone, Esquire

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power Cost Recovery Clauses and Generating Performance Incentive Factor - **Transmission Reconsideration**		Docket No. 990001-EI Filed: March 4, 1999

GULF POWER COMPANY'S POST-HEARING BRIEF AND STATEMENT OF ISSUES AND POSITIONS

Gulf Power Company, ("Gulf Power," "Gulf," or "the Company"), by and through its undersigned attorneys, pursuant to Rule 25-22.038(3), Florida Administrative Code, and in accordance with the Order Establishing Procedure in this docket, Order No. PSC-98-1270-PCO-EI, and the Prehearing Order governing this proceeding, Order No. PSC-99-0196-PHO-EI, hereby submits the Company's post-hearing brief on the issues identified in the foregoing orders, and the Company's post-hearing statement of issues and positions related thereto.

INTRODUCTION

There are two basic issues to be resolved in this proceeding. Each of the issues arises out of the Commission's reconsideration of its Order No. PSC-98-0073-FOF-EI issued January 13, 1998. That order, in part, directed each of Florida's four major investor-owned electric utilities to provide their retail customers a credit through the retail fuel cost recovery clause equal to the amount of any non-firm transmission revenues received by the utility in connection with economy energy sales made by that utility. The transmission charges in question were a result of the decision by the Federal Energy Regulatory Commission ("FERC"), announced in FERC Order 888, requiring electric utilities to unbundle transmission charges from economy sales. The effective date of the unbundling requirement was January 1, 1997. The first of the two basic issues is to ascertain whether the FERC, pursuant to its jurisdiction over wholesale energy transactions, requires a utility receiving revenues from non-firm transmission services to reflect these revenues as a credit in the derivation of the utility's firm transmission rates. The second basic issue to be resolved in this proceeding concerns the allocation of non-firm transmission revenues between the retail and wholesale jurisdictions. As a consequence of the resolution of the second basic issue on a theoretical basis, the Commission must also determine for each affected utility whether a change in allocation methodology is warranted under the individual facts and circumstances faced by each utility.

The uncontroverted evidence introduced at the hearing on February 12, 1999 clearly shows that the FERC's cost of service and ratemaking practices generally require utilities to reflect non-firm transmission revenues as a credit against the revenue requirements of firm transmission services when the utility establishes its rates for firm transmission services. The positions of the four utilities are uniform on this issue. The testimony of the utility witnesses in this regard was not challenged by any party. There was no contrary evidence introduced in this proceeding by any party, either directly or through cross-examination of utility witnesses.

As to the second basic issue in this case, the four electric utilities appear to be in agreement with each other regarding the proper theoretical basis for separating non-firm transmission revenues between the wholesale and retail jurisdictions. With regard to transmission revenues associated with any economy sales subject to Order No. PSC-98-0073-FOF-EI, given the Commission's prior decision to pass such transmission revenues as a direct credit to retail customers through the fuel cost recovery clause, the utilities agree that a theoretically proper separation between wholesale and retail jurisdictions would be based on a transmission-related separation factor. To be theoretically proper, this would mean jurisdictional separation of transmission revenues by using a demand-based allocator.

Since each of the utilities is presently using an energy-based separation factor in connection with the transmission revenues that are being credited to retail customers through the fuel clause, implementation of such a theoretically pure model would require a change in the separation methods employed by the utilities for such revenues. At least two of the utilities, Florida Power & Light Company and Gulf Power Company, have requested that they be allowed to continue using the energy-based jurisdictional separation factors in connection with the transmission revenues that are subject to Order No. PSC-98-0073-FOF-EI, the order under reconsideration in this proceeding. Both of these utilities are opposed to changing their methods for jurisdictionalizing the subject transmission revenues because the identified benefits from such a change do not outweigh the associated costs.

The Commission should exercise its discretionary authority to allow those utilities who wish to do so, the opportunity to continue using an energy-related separation factor for any transmission revenues that are to be credited to customers through the fuel cost recovery clause as a result of the Commission's prior decision in Order No. PSC-98-0073-FOF-EI. If an individual electric utility is able to demonstrate to the Commission's satisfaction that a change in the separation method employed by that utility is warranted based on the facts and circumstances faced by that utility, then the Commission should authorize such a change for that utility only. Such individualized treatment will allow utilities to avoid any unnecessary or unreasonable costs for themselves or their customers.

Gulf Power Company agrees that a transmission-related separation factor based on coincident peak demand properly allocates transmission revenues between the retail and wholesale jurisdictions. However, for administrative simplicity, Gulf proposes to allocate the transmission revenues flowed through the fuel clause based on energy sales adjusted for line losses. For Gulf Power, the energy allocator and the demand allocator are very similar. Due to the immateriality of this difference in the energy and demand allocators and the administrative costs involved in changing the allocator for the transmission revenues associated with economy sales, Gulf respectfully requests that it be authorized to continue using the energy based allocator in connection with any such transmission revenues that are required by the Commission to be credited to retail customers through the fuel cost recovery clause.

STATEMENT OF ISSUES AND POSITIONS:

ISSUE 1: Does the FERC require that revenue from non-firm transmission services subject to FERC jurisdiction be reflected as a revenue credit in the derivation of firm transmission service rates subject to FERC jurisdiction?

***SUMMARY OF GULF'S POSITION:**

Yes. The FERC included this requirement in both Order No. 888 and Order No. 888-A for transmission providers using annual system peak load pricing for their transmission services.

DISCUSSION:

The testimony and exhibits introduced in the record of this proceeding at the hearing on February 12, 1999, clearly and without equivocation, show that the FERC requires that revenue from non-firm transmission services subject to FERC jurisdiction be reflected as a revenue credit in the derivation of firm transmission service rates subject to FERC jurisdiction. [Tr.12, 18-19, 34-35; Ex. 2 at page 19] On page 304 of the FERC's Order No. 888, the FERC clearly states that as part of the mechanism to prevent over-recovery of costs ". . . revenue from non-firm services should continue to be reflected as a revenue credit in the derivation of firm transmission tariff rates." [Tr. 18-19] This requirement was reaffirmed by the FERC in Order No. 888-A that was issued on March 4, 1997. At page 247 of Order No. 888-A, the FERC stated that ". . . the Commission [FERC] explained that revenue from non-firm transmission services should continue to be reflected as a revenue credit in the derivation of firm transmission service rates. The Commission [FERC] noted that the combination of allocating costs to firm point-to-point service and the use of a revenue credit for non-firm transmission service will satisfy the requirements of a conforming rate proposal enunciated in our Transmission Pricing Policy Statement." [Tr. 19] Southern Companies (including Gulf Power) have filed their Open Access Transmission Service Tariff to conform to the foregoing requirements of FERC Order No. 888 and FERC Order No. 888-A. [Tr. 19-20]

ISSUE 2: How should the transmission revenues associated with economy transactions over the Energy Broker Network be separated between the retail and wholesale jurisdictions?

***SUMMARY OF GULF'S POSITION:**

Given the Commission's prior decision to credit such transmission revenues through the fuel clause, a transmission-related separation factor based on coincident peak demand properly allocates transmission revenues between retail and wholesale jurisdictions. This is consistent with the allocation of transmission-related plant costs and O & M in Gulf's last rate case.

DISCUSSION:

At the outset, it is important to note that Gulf Power is not part of the Energy Broker Network ("EBN"). [Ex. 2 at page 4] As a result, neither Gulf Power nor Southern Company make any economy transactions over the EBN. [Ex. 2 at pages 4-5; Tr. 81] Nevertheless, Gulf and Southern do participate in economy energy transactions outside of the EBN. [Ex. 2 at page 5]

These economy transactions take place under Southern's FERC approved tariff for market-based opportunity or economy energy sales. Under this formulation, such transactions between a buyer and a seller of energy take place at an agreed upon market-based price that varies with each transaction. [Ex. 2 at pages10-11; Tr. 81] In this regard, Gulf's and Southern's economy energy sales are very similar to the off broker opportunity sales made by other utilities such as Florida Power Corporation. [See, Tr. 62-63, 67-69]

Given the Commission's prior decision to reflect transmission revenues associated with economy energy sales as a credit to retail customers through the fuel cost recovery clause, a transmission-related jurisdictional separation factor based on coincident peak demand properly allocates transmission revenues between the retail and wholesale jurisdictions. [Tr. 76] This is consistent with the way in which the transmission-related plant costs and O & M expenses were allocated between the retail and wholesale jurisdictions in Gulf Power's last rate case. [Tr. 76-77] For reasons discussed in Gulf's position on Issue 5 below, Gulf requests authority from the Commission to continue using the energy-based allocator in connection with any such transmission revenues that are required by the Commission to be credited to retail customers through the fuel cost recovery clause. [Tr. 77, 79]

Gulf continues to believe that any transmission revenues received by the Company due to economy energy transactions should be credited to operating revenues rather than through the fuel clause. [Tr. 23] In this fashion, the FPSC's surveillance mechanism would be used to ensure that such revenues do not cause the Company to over-earn. [Tr. 23-24] By crediting the transmission revenues to operating revenues (rather than through the fuel clause), the Company avoids the prospect of having to, in effect, give away the same revenues twice. [Tr. 24]

However, given the Commission's prior decision to credit such transmission revenues through the fuel clause, and given that it is likely for the foreseeable future that non-firm transmission revenues received by Gulf Power will not be flowed back to the FERC jurisdiction through annual updates to Southern's firm transmission rates, Gulf's only remaining concern relative to this issue involves the administrative costs associated with Gulf Power's use of a transmission-related jurisdictional separation factor to allocate revenues between the wholesale and retail jurisdictions. [Tr. 24] This concern is discussed in connection with Issue 5 below.

ISSUE 5[1]: How should Gulf Power Company allocate transmission revenues associated with economy transactions over the Energy Broker Network between the retail and wholesale jurisdictions?

***SUMMARY OF GULF'S POSITION:**

For administrative simplicity, Gulf proposes to allocate any transmission revenues flowed through the fuel clause based on energy sales adjusted for line losses, as it has been doing for transmission revenues related to economy sales effective January 1997 pursuant to FPSC Order No. PSC-98-0073-FOF-EI dated January 13, 1998.

DISCUSSION:

As discussed earlier under Issue 2, Gulf Power does not make economy energy transactions over the Energy Broker Network. Nevertheless, Gulf Power, through its affiliation with the Southern Company, does make economy energy sales to other utilities. Since the issuance of Order No. PSC-98-0073-FOF-EI, Gulf has been reflecting the transmission revenues associated with such transactions as a credit to the Company's retail customers through the fuel cost recovery clause. [Tr. 77] This credit through the fuel clause has included the transmission

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[1]The next and final issue to be discussed by Gulf Power is Issue 5. Issue 3, Issue 4 and Issue 6 involve utilities other than Gulf Power. Gulf takes no position on those three issues.

revenues associated with all of the Company's economy energy sales made since January 1, 1997. [Tr. 77, 79] In calculating the credit to the fuel clause, Gulf has been separating the transmission revenues between the wholesale and retail jurisdiction by using an energy-based allocator. [Tr.77, 79] As part of this proceeding, Gulf is requesting authority from the Commission to continue using the energy-based allocator in connection with any such transmission revenues that are required by the Commission to be credited to retail customers through the fuel cost recovery clause. [Tr. 77, 79]

For Gulf Power, the energy allocator and the demand allocator are very similar. [Tr. 77, 79] Use of the demand allocator for Gulf Power would not cause a material change in the amount of transmission revenues that would be flowed to customers through the fuel clause. In fact, such a change would mean that the customers receive a smaller credit. [Tr. 77-78, 79] However, changing the allocation for these transmission revenues would require fairly substantial changes to Gulf Power's over/under recovery calculation each month, to the actual "A" schedules filed each month and to the projection schedules filed annually. Changing the allocation factor for transmission revenues would require substantial revisions to the actual and projected fuel schedules and related spreadsheets that Gulf uses. Because of the extensive use of macro routines to import and export data between files and calculate "period to date" amounts, these spreadsheets would have to be reprogrammed and tested in order to make a change to a demand-related allocator. [Tr. 80] Due to the immateriality of the difference in results between continuing to apply the energy allocator as compared to application of the demand allocator, and the administrative costs involved with changing the allocator for the transmission revenues associated with economy sales, Gulf Power is proposing to continue using the energy allocator to flow these transmission revenues through the fuel clause to its customers. [Tr. 78, 80] It is Gulf's position that it is not necessary to treat all utilities consistently on this particular issue. [Tr. 81] Due to relative differences in materiality, what works for Gulf may not work for another utility. [Tr. 81]

CONCLUSION

The Commission's decision in this proceeding should acknowledge that the FERC, pursuant to its jurisdiction over wholesale energy transactions, requires a utility receiving revenues from non-firm transmission services to reflect these revenues as a credit in the derivation of the utility's firm transmission rates. Provision should be made in the Commission's order on reconsideration to ensure that the Commission's requirement that a utility reflect economy energy related transmission revenues as a credit to retail customers through the fuel cost recovery clause does not, as a result of conflicting treatment in wholesale and retail jurisdictions, lead to the utility being forced to credit or give away the same revenues twice.

With regard to the wholesale and retail separation of any transmission revenues to be reflected as a credit to retail customers through the fuel cost recovery clause, the Commission should acknowledge that a transmission-related separation factor based on coincident peak demand properly allocates transmission revenues between retail and wholesale jurisdictions. The Commission should also acknowledge that differences in the facts and circumstances faced by different utilities may warrant use of different allocators. In Gulf's case, the Commission should authorize Gulf Power to continue using the energy-based allocator in connection with any transmission revenues that are required by the Commission to be credited to retail customers through the fuel cost recovery clause.

Respectfully submitted this 3rd day of March 1999.

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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. 990001-EI
) **TRANSMISSION RECONSIDERATION**

Certificate of Service

I HEREBY CERTIFY that a true copy of the foregoing was furnished by hand delivery or the U. S. Mail this 3rd day of March 1999 on the following:

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