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September 18, 1997

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. ~~970001-EI~~

Enclosed are an original and ten copies of the Gulf Power Company's Post-Hearing Brief and Statement of Issues and Positions to be filed 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 MS-DOS based computer.

Sincerely,

ACK _____
AFA 2 *Linda G. Malone*
APP _____ Linda G. Malone
CAF _____ Assistant Secretary and Assistant Treasurer

CMU _____ lw
CTR _____
ENCLOSURES 5 *Return*

LEI 1
LRI 3 cc: Beggs and Lane
Jeffrey A. Stone, Esquire
Gulf Power Company
Susan D. Cranmer

WAS _____
OTH _____

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power)
Cost Recovery Clauses and)
Generating Performance Incentive)
Factor)
_____)

Docket No. 970001-EI
Filed: September 18, 1997

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

Gulf Power Company ["Gulf Power"], by and through its undersigned attorneys, and pursuant to Rule 25-22.038(3), Florida Administrative Code, and in accordance with the Order Establishing Procedure in this docket, Order No. PSC-97-0794-PCO-EI, hereby submits the Company's post-hearing brief on issues 9-12 as identified in Order No. PSC-97-0976-PHO-EI, and the Company's post-hearing statement of issues and positions related thereto.

INTRODUCTION

The basic issue to be resolved in this proceeding is how the transmission cost component of economy transactions is to be treated with regard to the fuel cost recovery clause. This issue arises because FERC Order 888 directs utilities to include a distinct transmission cost component in their pricing of economy energy for economy sales. There are two parties to an economy transaction that have cost recovery considerations which must be addressed in resolving this issue: the buyer and the seller. The seller's treatment of the revenue from the transaction and the purchaser's treatment of the cost of the economy transaction are different because they view the transaction differently.

The electric utility industry is rapidly moving away from cost-based pricing toward market-based pricing. [Tr. 199] Gulf Power, in association with the Southern electric system, has

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filed economy sales tariffs with the FERC which are market-based. [Tr. 198-99] Approval of the market-based tariffs by FERC will make Gulf Power the only utility in Florida to have market-based tariffs for economy transactions. [Tr. 231] These filed tariffs allow Gulf Power to charge a market rate for the energy including a specified transmission service cost component added to the economy energy production cost charge. [Tr. 198-99] This is consistent with the fact that until FERC Order 888, Gulf Power, in association with the Southern electric system, did not include a transmission service cost in economy energy transactions. [Tr. 193] This transmission service cost is now an incremental cost to be added to the energy cost to arrive at the ultimate price of the transaction. [Tr. 193]

The position taken by Gulf Power Company on the issues covers both the viewpoint of the seller and of the purchaser. Gulf Power's position is not affected by whether a third party is utilized for transmission service because there is no longer a meaningful distinction between transactions involving third party transmission costs and economy transmission costs between two directly interconnected utilities. [Tr. 194] Gulf Power's position is that the seller in an economy transaction should reflect the transmission service revenues as a credit to base rates in the surveillance report to the Florida Public Service Commission ("FPSC" or "Commission"). [Tr. 193, 199-200] For the seller, the transmission service revenues should not be allocated to the fuel cost recovery clause. [Tr. 199-200]

There are two reasons why the transmission service revenue should not be credited to the fuel cost recovery clause. The most important of those reasons is that if the transmission service revenue were credited in the fuel cost recovery clause, the selling utility would be crediting the same revenues twice: once to the transmission service customers through subsequent adjustment

to transmission rates and, a second time to all retail customers through the fuel cost recovery clause. [Tr. 195-96, 199-200, 205-06] FERC Orders 888 and 888A require that revenue from non-firm (economy transactions) be reflected as a revenue credit in the setting of firm transmission rates under the FERC's jurisdiction. [Tr. 222-23, See FERC Order 888 at page 304 and FERC Order 888A at page 247] The firm rates are set annually and would reflect the credit from transmission revenues associated with economy sales. Crediting the same revenue in the fuel cost recovery clause would result in a double-dipping with regard to the selling utility. [Tr. 199-200, 205-06] The seller only receives one revenue stream but provides credit for these revenues to the customers twice. This results in an inequity that is not reasonable. The eventual result of this "double-dipping" would be that retail customers would pay more in base rates. [Tr. 196]

The second reason for not crediting the transmission service revenues associated with economy sales to the fuel clause is that the transmission revenues should be matched with the transmission services expenses which are in base rates. The transmission service revenue is from the use of the seller's transmission system, not the seller's fuel resources. FERC 888 and FERC 888A require the seller in an economy energy transaction to separately account for the transmission component in sub accounts of FERC Account 447. These revenues are not accounted for in a fuel sub account because they are not fuel-related items. The transmission service revenues related to economy sales should not be treated like a fuel item and flowed through the fuel cost recovery clause. [Tr. 200]

The purchaser in an economy energy transaction comes to that transaction with a different viewpoint. The purchaser is in an entirely different position with regard to the treatment of the transmission service cost component. The purchaser in an economy energy transaction is not

concerned with what components are in the price of the economy energy transaction. [Tr. 87-88, 92, 200] The only concern that the purchaser has is whether the ultimate price is lower than the cost for which the purchaser itself could generate the energy. The purchaser sees the economy energy transaction as though it were nothing more than a fuel resource. If the total price, regardless of its components, is less than the purchaser's cost to generate the energy, the purchaser will buy the lower priced energy and pass the benefit of lower priced energy to its customers through the fuel cost recovery clause. [Tr. 200] The result will be that the purchaser and seller, as well as their respective customers, see the benefit of the economy energy transaction. The purchaser gets lower priced energy and the seller makes a more optimal use of its generation resources. The purchaser should be allowed to recover the purchase price, including the transmission component, just as it has done in the past before the transmission component was separated as a line item. [Tr. 87-88, 92, 118, 200]

The selling utility should be permitted to credit the transmission service revenues to base rates and the purchasing utility should be allowed to recover the transmission cost component through the fuel cost recovery clause. This is the proper method of accounting for the transmission revenues and costs without forcing the seller to credit the transmission service revenue to both the fuel cost recovery clause and the transmission service cost used to derive transmission service rates.

STATEMENT OF ISSUES AND 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?

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

The selling utility's transmission cost should be added to the production cost component of an economy sale.

Discussion:

The production cost component of the economy sale is calculated by either averaging the seller's incremental production cost and the buyer's decremental production cost, or by using a mutually agreed upon market-based production cost component that is higher than the seller's incremental production cost, but lower than the buyer's decremental production cost. [Tr. 193]

The selling utility's transmission cost should then be added to the production cost component of an economy sale. [Tr. 193]

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?

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

For the seller, the transmission component of the economy sale is reflected in base rates and the fuel cost component of the economy sale is credited to the customer through the fuel clause. For the buyer, the full cost of the economy purchase is recovered through the fuel clause.

DISCUSSION:

The transmission service revenue should be credited to base rates and reflected in the utility's surveillance reports to the FPSC. If the transmission service revenue were credited in the

fuel cost recovery clause, the selling utility would be required to credit the revenue to customers twice. The utility would credit the transmission service customers through the annual setting of transmission rates under the FERC jurisdiction. The same credit would also be made to retail customers through the fuel cost recovery clause. [Tr. 195-96, 205-06] This would result in a double-dipping with regard to the selling utility. [Tr. 195-96, 205-06] Two credits would occur from only one revenue stream. This is neither a reasonable nor a proper method of accounting for the transmission service revenues.

The second reason that the transmission revenues should not be placed in the fuel clause is that transmission has traditionally been treated by this Commission as a base rate item. [Tr. 269] The transmission service revenue is from the use of the seller's transmission system, a base rate item. The transmission system is not a part of the seller's fuel resources and should not be treated as such. FERC 888 and FERC 888A each require the seller in an economy energy transaction to separately account for the economy energy transmission service component in a sub account of FERC Account 447, Sales for Resale. [See FERC Order 888 at page 381 and FERC Order 888A at page 383] These revenues are not accounted for in a fuel sub account because they are not fuel items. The transmission service revenues are not fuel items and should not be treated like a fuel item and should not be flowed through the fuel cost recovery clause.

The purchaser in an economy energy transaction is in an entirely different position with regard to the treatment of the transmission service cost component. The purchaser in an economy energy transaction is not concerned with what components are in the price of an economy energy transaction. [Tr. 87-88, 92, 200] The only concern that the purchaser has is whether the price is lower than that which the purchaser itself could generate the energy. The purchaser sees the

economy energy transaction as nothing more than a fuel resource. If the price, regardless of its components, is less than the purchaser's cost to generate the energy, the purchaser will buy the lower priced energy and pass the benefit of lower priced energy to its customers. [Tr.200] The result will be that the purchaser and seller, as well as their respective customers, see the benefit of the economy energy transaction since the purchaser gets lower priced energy and the seller makes a more optimal use of its generation resources. The purchaser should be allowed to recover the purchase price, including the transmission cost component, through the fuel cost recovery clause, just as it has done in the past before the transmission cost component was separated as a line item. [Tr. 200]

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?

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

The selling utility's transmission cost and the third party's transmission wheeling cost are added to the production cost component.

Discussion:

First, the production cost component of the economy sale is calculated by either averaging the seller's incremental production cost and the buyer's decremental production cost, or by using a mutually agreed upon market-based production cost component that is higher than the seller's incremental production cost, but lower than the buyer's decremental production cost. [Tr. 194-95] Then, the selling utility's transmission cost is added to the production cost component of an

economy sale. Finally, the third party's transmission wheeling cost is added to this transaction price and the sale occurs only if the total transaction price is below the non-directly interconnected utility's decremental cost. [Tr. 194-95]

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

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

The seller's transmission component of the economy sale and the third party's transmission wheeling cost are reflected in base rates. The fuel cost component of the transaction is credited to the customer through the fuel clause. The buyer recovers the full cost of the economy purchase through the fuel clause.

Discussion:

See position on Issue 10 above.

CONCLUSION

The treatment of the transmission service cost component of economy transactions should be viewed from the position of both the buying utility and the selling utility. The selling utility should be permitted to credit the transmission service revenues to base rates. This would prevent the seller from having to credit the transmission service revenues to customers twice: once to transmission customers through FERC approved rates and a second time to retail customers through the fuel adjustment clause. The purchasing utility should be allowed to recover the transmission cost component through the fuel cost recovery clause. This is the proper method of accounting for the transmission revenues in light of FERC Order 888 and 888A.

Respectfully submitted this 18th day of September, 1997.



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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. 970001-EI

Certificate of Service

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