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November 14, 1996

HAND-DELIVERED

Blanca S. Bayo, Director
Division of Records and Reporting
Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

Re: Environmental Cost Recovery Clause
Docket No. 960001-EI

Dear Ms. Bayo:

Enclosed for filing and distribution are the original and fifteen copies of the Brief of the Florida Industrial Power Users Group in the above docket. I have also enclosed a 3.5 inch high density computer diskette containing the enclosed brief. The brief was prepared using WordPerfect 5.1 and is titled 960001.BRF.

Please acknowledge receipt of the above on the extra copy enclosed herein and return it to me. Thank you for your assistance.

Sincerely,

Joe McGlothlin for
Vicki Gordon Kaufman

- ACK ✓
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 960001-EI
Filed: November 14, 1996

BRIEF OF THE FLORIDA INDUSTRIAL POWER USERS GROUP

The Florida Industrial Power Users Group (FIPUG), pursuant to Order No. PSC-96-1285-PCO-EI, files its Post-hearing Brief.

Introduction

At the fuel adjustment hearing held on August 29, 1996, the Commission heard testimony on the issue addressed below. The Commission did not rule on the issue at the time and directed the parties to file post-hearing briefs. Order No. PSC-96-1285-PCO-EI.

Issue

Should an electric utility be permitted to include, for retail fuel cost recovery purposes, fuel costs 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?

FIPUG's position: *No. The average fuel cost of the generating units from which a sale is made should be used for fuel cost recovery purposes unless it is demonstrated that the actual cost is less for the time period the electricity is sold.*

Discussion

The issue would appear somewhat complex to the unsophisticated reader. In mathematics by definition some costs are above average and some below. The "average" summarizes the values to an arithmetic mean. FIPUG's understanding is

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that some utilities attempt to gain a competitive advantage in the wholesale market by pricing fuel cost to the wholesale customer at the lowest cost even at times when actual fuel costs are higher.

The heart of this issue concerns the question of whether retail ratepayers will be required to subsidize the forays of investor-owned utilities into the wholesale marketplace. To state the issue more simply, can a utility charge its retail customers more for fuel in order to make below cost sales in the wholesale market? FIPUG's position is that this should not be permitted.¹ A utility's decision to enter into a wholesale transaction for less than cost should not cause the fuel cost for retail ratepayers to be greater than cost. FIPUG encourages utilities to engage in prudent wholesale transactions, but they must do so at their own risk and must not expect retail ratepayers to subsidize those transactions or absorb the consequences of transactions that are not economic.

If a transaction is structured so that the fuel price tracks cost at the time electricity is generated, FIPUG agrees that it would be an appropriate price. Other customers would lose the benefit that they would have received from having the lower costs factored into average cost, but they would benefit from the capital cost recovery included in the sale. A sale might be made that would not have otherwise been made.

To ensure that no cross subsidization occurs, all sales must be priced at the

¹ Though some parties attempted to imply otherwise at the hearing, FIPUG submits that the Florida Broker system would in no way be affected by the adoption of FIPUG's position. See Tr. 272, 311. Actual cost difference is the essence of a brokerage transaction

actual cost of the unit used to make the sales. If a sale is from the utility's system, it must be based on system actual fuel costs; if it is from a specific unit or several units, it must be based on the actual cost of the units involved. As FPC's Mr. Weiland noted, this approach will ensure that retail customers do not subsidize wholesale sales. (Tr. 149). Incremental costs can be used for short duration sales, but if a portion of a unit is permanently assigned to a customer, that customer should bear average capital and fuel costs for the unit.

Public Counsel witness Larkin also endorsed this approach. If such an approach is not followed, Mr. Larkin cautioned that the fuel adjustment clause could become "a methodology by which a utility may subsidize a type of wholesale sale at the expense of retail customers who are subject to the fuel adjustment clause." (Tr. 314).

Such discriminatory and unlawful subsidization can be avoided by adopting the criteria advocated by FPC and Public Counsel for long-term wholesale sales. (Tr. 150, 316-317). Incremental cost pricing, when below average cost, should be used only when the following categories of transactions meet all of the applicable criteria shown for each:

(If short-term)

1. Short term (less than one year) non-firm sales based on actual real time cost of fuel adjusted for line losses.

(If long-term)

2. Firm sales from existing reserves which do not commit the Company to construct or purchase additional capacity.

3. Sales that are made from the system and for which resources are not subject to jurisdictional separation.
4. Sales for which all revenues (fuel and non-fuel) are credited back to retail ratepayers.

(Tr. 150-151). If these criteria are adopted, retail ratepayers will be protected.

If the Commission were to permit the incremental pricing approach advocated by TECO and Gulf Power, fuel costs for retail ratepayers would undoubtedly increase. For example, FPC, which currently prices its wholesale sales in accordance with the principles advocated by FIPUG and Public Counsel, testified that if long-term firm wholesale customers were charged less than average fuel costs, the retail ratepayers would be harmed because the utility would incur long-term obligations that have a higher cost. (Tr. 156). Further, if FPC were to charge less than average fuel costs to these customers (which it will do if the Commission approves this practice), it would increase the retail customers' fuel adjustment costs. (Tr. 157).

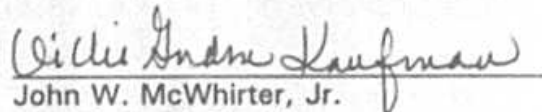
The fallacy of the type of incremental pricing suggested by TECO and Gulf Power is illustrated in the testimony of TECO's Mr. Ramil. Mr. Ramil testified that under his approach retail customers who must buy any power they purchase from TECO would be interrupted before either wholesale or separated Schedule D sales in the event there was insufficient capacity to serve all, even though the wholesale customers would be paying for fuel on an incremental basis. (Tr. 264-265). In other words, retail customers would be paying full cost--wholesale customers would get the benefit.

Further, as pointed out by Staff, the pricing proposal of TECO and Gulf Power would violate principles of capital/fuel symmetry. That is, it would permit the

inequitable practice of charging favored customers incremental fuel costs while charging retail customers having an obligation to buy from TECO average fuel costs, when both pay the same capital costs for generation. (Tr. 194-195). It would be especially egregious if the lower fuel costs were derived from plant with above average capital cost (for example, if the fuel cost from the TEC's Polk power station were assigned to the wholesale customer while its exceptionally expensive capital costs were allocated to the retail customers).

Conclusion

To protect the retail ratepayer from subsidizing the wholesale customer, the Commission should require fuel costs for purposes of cost recovery to be based on actual costs.



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Brief of the Florida Industrial Power Users Group has been furnished by hand delivery(*) or by U.S. Mail to the following parties of record this 14th day of November, 1996:

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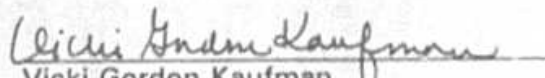
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