MEMORANDUM

SEP 17 1997

DEPUTY EXECUTIVE

September 16, 1997

TO: DEPUTY EXECUTIVE DIRECTOR/TECHNICAL (BANE)

FROM: DIVISION OF ELECTRIC & GAS (GOAD)
DIVISION OF AUDITING & FINANCIAL ANALYSIS (MERTA)
DIVISION OF LEGAL SERVICES (PAUGH)

RE: DOCKET NO. 970171-EU - DETERMINATION OF APPROPRIATE COST ALLOCATION AND REGULATORY TREATMENT OF TOTAL REVENUES ASSOCIATED WITH WHOLESALE SALES TO FLORIDA MUNICIPAL POWER AGENCY AND CITY OF LAKELAND BY TAMPA ELECTRIC COMPANY.

SPECIAL INSTRUCTIONS: PLEASE PROVIDE COPIES OF THIS MEMORANDUM AND ATTACHMENTS TO THE PARTIES OF RECORD.

Attached hereto are revised pages 10, 11 and 20 for insertion into the Recommendation filed on July 24, 1997 in Docket No. 970171. The revisions consist of additional language which was inadvertently omitted from the original recommendation. The revisions have been highlighted for ease of identification and relate to SO_2 allowance revenue shortfalls.

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Attachment
cc: Division of Electric and Gas (Goad, Kummer, Draper, Dudley, Ging)
Division of Auditing and Financial Analysis (Merta, Noriega, Stallcup)
I: 970171me.ljp

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in the short run. However, in order to meet this commitment, TECO has proposed to reduce operating revenues by any amount of shortfall between actual fuel and SO_2 allowances costs and revenues received. (TR 92) Any reduction in operating revenues to make fuel whole reduces the potential for any possible refund to ratepayers under the provisions of Order Nos. PSC-96-1300-S-EI and PSC-96-0670-S-EI. In order for the "guarantee" of fuel and SO_2 allowance revenues to have any meaning, staff believes it is necessary to require TECO to make up any shortfall between costs and revenues from "below-the-line." This will be addressed in Issues 2 and 3.

Summary

Based on TECO's projections, as shown in the above table, revenues are expected to exceed incremental costs, thus producing net benefits. However staff is concerned that in the event TECO's cost projections are incorrect, the rate payers may be harmed. Staff believes that this chance can be eliminated by requiring TECO to make up any shortfalls between costs and revenues when crediting fuel and SO_2 costs from "below-the-line." Also, if generation expansion is required before the FMPA sale expires, revenues in an amount equal to the costs of the expansion caused by the FMPA sale should be imputed, from "below-the-line", to operating revenues. With these two protections TECO's retail rate payers will be indifferent at worst.

ISSUE 2: How should the non-fuel revenues and costs associated with Tampa Electric Company's wholesale schedule D sales to the Florida Municipal Power Agency be treated for retail regulatory purposes?

PRIMARY STAFF RECOMMENDATION: The Stipulation entered into by the parties to Docket No. 960409-EI requires that the capital and O&M costs be separated at average embedded cost, consistent with the methodology used in TECO's 1992 rate case. This treatment should be applied retroactively since the inception of the sale in December 1996. (KUMMER)

ALTERNATIVE STAFF RECOMMENDATION: Because the impact on ratepayers depends on the treatment of revenues, alternative staff recommends the following regulatory treatment for the non-fuel costs and revenues:

- Retain all costs associated with the FMPA sale in the retail jurisdiction.
- Incremental SO_2 allowance revenues should be credited back through the Environmental Cost Recovery Clause. **Any SO_2 allowance revenue shortfalls should be trued-up using "below-the-line" operating revenues.**
- Transmission revenues should be credited to the Capacity Cost Recovery Clause.
- O&M revenues should be included in operating revenues.
- All remaining revenues should be credited to the Capacity Cost Recovery Clause.
- If additional plant capacity is added prior to the end of the FMPA sale, revenues equal to the FMPA sale's cost contribution of the new plant should be imputed to operating revenues from "below-the-line."

Any decision reached by the Commission should be applied retroactively since the inception of the sale in December 1996. (GOAD, DUDLEY)

POSITION OF PARTIES

TECO: The Commission should approve the treatment of fuel and non-fuel revenues and costs as proposed by Tampa Electric and

For non-separated sales, it has been Commission policy to return all revenues from the sales to retail ratepayers. (TR 465) By allowing costs associated with this wholesale sale to remain in the retail jurisdiction, supported by retail customers, it is prudent and consistent with past Commission policy to return all the revenues received from the sale to the retail customers. (EXH 1, Order No. PSC-97-0262-FOF-EI) Staff Witness Wheeler stated, "If it is determined that it is appropriate to allow TECO to retain these sales within the retail jurisdiction, it is my belief that all of the revenues from these sales be returned immediately to the ratepayers through adjustment clause mechanisms." (TR 466) Staff concurs with Staff Witness Wheeler, as such, staff proposes that revenues be returned in the following manner:

(1) Incremental SO_2 allowance revenues should be credited back through the Environmental Cost Recovery Clause. Any SO_2 allowance revenue shortfalls should be trued-up using "below-the-line" operating revenues.

(2) Transmission revenues should be credited to the Capacity Cost Recovery Clause.

(3) O&M revenues should be included in operating revenues.

(4) All remaining revenues should be credited to the Capacity Cost Recovery Clause.

(5) Impute revenues if capacity additions are required during the life of the contract.

SO_2 Allowances

By increasing their usage to accommodate the additional loading requirements of the FMPA wholesale sales, TECO's generating units will emit additional tonnages of sulfur dioxide. Sulfur dioxide (SO_2) emissions are directly related to the sulfur content of the fuels being consumed to produce electricity. To prevent any affect on existing customers, TECO has proposed to credit its ECRC with all incremental SO_2 allowance costs incurred as a result of making the FMPA sale based on "current market conditions." (TR 320-322, 324, 391) The ECRC is the current mechanism for recovering environmental compliance expenditures not currently recovered through base rates. Staff agrees with the necessity of this credit because absent some form of offset, TECO's remaining customers would be denied the full benefit of zero-cost based allowances granted to TECO by the EPA each year.