

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

DECEMBER 5, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (DRAPER) EJD
DIVISION OF LEGAL SERVICES (JOHNSON) VJ RUE JDJ

RE: DOCKET NO. 960001-EI - GULF POWER COMPANY - FUEL AND
PURCHASED POWER COST RECOVERY FACTOR CLAUSE WITH
GENERATING PERFORMANCE INCENTIVE FACTOR

AGENDA: DECEMBER 17, 1996 - REGULAR AGENDA - TARIFF FILING -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\960001EI.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission grant Gulf Power Company's petition for a midcourse correction to decrease its capacity cost recovery factors for all classes effective with the first billing cycle in January 1997?

RECOMMENDATION: Yes. The Commission should approve the requested midcourse correction to decrease capacity cost recovery factors as shown in Attachment A.

STAFF ANALYSIS:

On November 22, 1996, Gulf Power Company (Gulf) filed a petition for approval of a mid-course correction to its currently authorized Purchased Power Capacity Cost Recovery factors (capacity factors). The calculation of Gulf's capacity factors for the period October, 1996 through September, 1997 approved at the August 1996 hearings included an estimated \$10,735,529 in payments under the Southern Company Electric System's Intercompany Interchange Contract (IIC). Actual data now available for October 1996 and revised data for November 1996 through September 1997 estimate IIC payments for October 1996 through September 1997 to be \$5,383,394.

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or \$5,352,135 less than the estimate included in the current capacity factors.

The projected overrecovery results from a proposed revision in the IIC currently pending before the Federal Energy Regulatory Agency (FERC). The Southern Company filed IIC Amendment No. 6 with FERC on May 10, 1996. The FERC has reviewed and accepted this filing, subject to refund. The FERC will hold a hearing in March 1997 to fully examine IIC Amendment No. 6.

Under the IIC capacity equalization process, each operating company determines its load responsibility and available capacity to serve its load for the month. Any capacity remaining after a company meets its load responsibility and contract sales obligations is considered reserve capacity and is available for purchase by other operating companies which may have inadequate capacity to meet their projected demand and reserve requirements. Thus, an individual operating company may be deficient and purchase additional capacity in a given month, or have excess capacity and sell its surplus to the pool.

The proposed IIC revision mainly changes the way these monthly reserve capacity transactions are priced. In the past, the Southern Company based the price of capacity on the average cost of a fossil fuel plant, because large coal plants produced the majority of the energy. The new pricing is based on the price of Combustion Turbine (CT) units to reflect the recent trend in generation expansion to build CT units. CT units are typically cheaper and faster to build than a coal plant. The result of this proposed change is that operating companies will be able to buy capacity from the pool at a lower cost; however, companies which sell capacity to the pool also sell capacity at a lower price.

Currently, Gulf is a net buyer of capacity. Therefore, the proposed changes to the IIC will lower Gulf's projected capacity payments to the pool for October 1996 through September 1997. Staff notes that, should Gulf be in the position of selling to the pool, the credit Gulf would receive would be smaller than under the old pricing methodology.

There has been no prudence review of Gulf's capacity payments and staff does not necessarily agree or disagree with Gulf's figures at this time. In addition, there has been no review by staff of IIC Amendment No. 6. The Southern Company's IIC system falls under FERC jurisdiction. As noted above, FERC has accepted this filing subject to refund. Gulf has indicated to staff that it believes FERC will accept this filing with no or minor modifications.

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Staff has reviewed the factors derived for Gulf's various rate classes and has found them to be calculated using the same methods that have been accepted in the past. Attachment A of this recommendation reflects the capacity factors for each class and compares bills for 1,000 kWh of residential consumption before and after this capacity factor adjustment.

One of the purposes of mid-course corrections as described in Commission Order No. 13694 is to assure a levelized fuel adjustment and avoid rate shock ratepayers experience when factors are adjusted. Although this order only refers to fuel cost, staff believes that the intent of this order applies to all adjustment factors. It is, therefore, in the best interest of the ratepayers to approve the mid-course correction to the capacity factor which results in lower rates for Gulf's ratepayers.

Gulf has requested an effective date beginning with the first billing cycle in January 1997. Although this effective date falls short of the normal 30-day notice requirement, staff believes that such treatment is warranted given the magnitude of the projected overrecovery. Staff believes that Gulf's customers should benefit from the decrease in the capacity factor at the earliest practicable time. Based on the foregoing, staff recommends that the Commission approve Gulf's decreased capacity factors, as shown in Attachment A, effective with the first billing cycle in January 1997.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: No. The Fuel and Purchased Power Cost Recovery Clause docket should remain open. If Issue 1 is approved, this tariff should become effective with customer billings on cycle day 1 of January, 1997. If a protest is filed within 21 days of the issuance of the Order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest.

STAFF ANALYSIS: The Fuel and Purchased Power Cost Recovery Clause is an on-going docket and should remain open.

RESIDENTIAL FUEL FACTORS FOR THE PERIOD: January 1997 - March 1997

NOTE: This schedule reflects a mid-course correction in the capacity cost recovery factors for Gulf Power Company effective January 1, 1997.

		Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2)	
						Marianna	Fernandina Beach
Present (cents per kwh):	October - December 1996	2.209	2.058	2.418	2.345	4.951	5.053
Proposed (cents per kwh):	January 1997 - March 1997	2.209	2.058	2.418	2.345	4.951	5.053
	Increase/Decrease:	0.000	0.000	0.000	0.000	0.000	0.000

TOTAL COST FOR 1,000 KILOWATT HOURS - RESIDENTIAL SERVICE

PRESENT:	October - December 1996	Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2)	
						Marianna	Fernandina Beach
Base Rate		47.46	49.05	50.18	43.25	20.43	19.20
Fuel		22.09	20.58	24.18	23.45	49.51	50.53
Energy Conservation		2.09	1.38	1.62	0.41	0.19	0.09
Environmental Cost Recovery		0.17	N/A	0.41	1.24	N/A	N/A
Capacity Recovery		6.21	10.30	1.98	1.67	N/A	N/A
Gross Receipts Tax (1)		0.80	2.08	2.01	0.72	1.80	0.72
Total		\$78.82	\$83.39	\$80.38	\$70.74	\$71.93	\$70.54

PROPOSED:	January 1997 - March 1997	Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2)	
						Marianna	Fernandina Beach
Base Rate		47.46	49.05	50.18 (3)	43.25	20.43	19.20
Fuel		22.09	20.58	24.18	23.45	49.51	50.53
Energy Conservation		2.09	1.38	1.62	0.41	0.19	0.09
Environmental Cost Recovery		0.17	N/A	0.41	1.24	N/A	N/A
Capacity Recovery		6.21	10.30	1.98	0.78	N/A	N/A
Gross Receipts Tax (1)		0.80	2.08	2.01	0.71	1.80	0.72
Total		\$78.82	\$83.39	\$80.38	\$69.84	\$71.93	\$70.54

PROPOSED INCREASE / (DECREASE)		Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2)	
						Marianna	Fernandina Beach
Base Rate		0.00	0.00	0.00	0.00	0.00	0.00
Fuel		0.00	0.00	0.00	0.00	0.00	0.00
Energy Conservation		0.00	0.00	0.00	0.00	0.00	0.00
Environmental Cost Recovery		0.00	N/A	0.00	0.00	N/A	N/A
Capacity Recovery		0.00	0.00	0.00	-0.89	N/A	N/A
Gross Receipts Tax (1)		0.00	0.00	0.00	-0.01	0.00	0.00
Total		\$0.00	\$0.00	\$0.00	-\$0.90	\$0.00	\$0.00

(1) Additional gross receipts tax is 1% for Gulf, FPL and FPUC-Fernandina Beach. FPC, TECO and FPUC-Marianna have removed all GRT from their rates, and thus entire 2.5% is shown separately. (2) Fuel costs include purchased power demand costs of 1.956 for Marianna and 1.801 cents/KWH for Fernandina allocated to the residential class.

(3) TECO base rates include .174 cents per kwh retail refund as approved in Docket No. 950379-EI, Order No. PSC-96-0670-S-EI.

PROPOSED CAPACITY COST RECOVERY FACTORS

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For the Period: January 1997 - March 1997 *

COMPANY	RATE SCHEDULE	RECOVERY FACTOR (CENTS PER KWH)	
FPL *	RS1	0.621	
	GS1	0.562	
	OL1/SL1	0.102	
	SL2	0.395	
	OS2	0.407	
		RECOVERY FACTOR (DOLLARS PER KW)	
	GSD1	\$2.14	
	GSLD1/CS1	\$2.15	
	GSLD2/CS2	\$2.19	
	GSLD3/CS3	\$2.15	SDD
	ISST1D - RDC/SDD	\$0.28	\$0.13
	SST1T - RDC/SDD	\$0.27	\$0.13
	SST1D - RDC/SDD	\$0.28	\$0.13
	CILCD,CILCG	\$2.21	
	CILCT	\$2.20	
	MET	\$2.31	
		RECOVERY FACTOR (CENTS PER KWH)	
FPC	RS	1.030	
	GS-Transmission	0.801	
	GS-Primary	0.809	
	GS-Secondary	0.817	
	GS - 100% Load Factor	0.563	
	GSD-Transmission	0.670	
	GSD-Primary	0.677	
	GSD-Secondary	0.684	
	CS - Transmission	0.561	
	CS - Primary	0.567	
	CS - Secondary	0.573	
	IS-Transmission	0.562	
	IS-Primary	0.568	
	IS-Secondary	0.573	
	LS - Lighting Service	0.205	
TECO	RS	0.198	
	GS,TS	0.191	
	GSD, EV-X	0.146	
	GSLD,SBF	0.130	
	IS-1 & 3,SBI-1 & 3	0.011	
	SL/OL	0.024	
GULF *	RS,RST	0.078	
	GS,GST	0.075	
	GSD,GSDT	0.056	
	LP,LPT	0.051	
	PX,PXT, RTP	0.042	
	OS-I,OS-II	0.019	
	OS-III	0.045	
	OS-IV	0.094	
	SBS	0.053	

* FPL and Gulf factors are effective January 1997 through September 1997.