

One Energy Place
Pensacola, Florida 32520

Tel 850 444 6000

ORIGINAL



September 26, 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 for official filing are an original and ten copies of Gulf Power Company's Post-Hearing Reply Brief to be filed in the above docket.

Sincerely,

Susan D. Cranmer

Susan D. Cranmer
Assistant Secretary and Assistant Treasurer

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power)	Docket No.	970001-EI
Cost Recovery Clauses and)	Filed:	September 26, 1997
Generating Performance Incentive)		
Factor)		
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GULF POWER COMPANY'S
POST-HEARING REPLY BRIEF

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 reply brief on issues 9-12 as identified in Order No. PSC-97-0976-PHO-EI.

DISCUSSION

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. Gulf Power Company's position is that the seller in an economy transaction should reflect the transmission service revenues as a credit to base rates in the utility's surveillance reports 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 as proposed by Florida Power and Light and Florida Industrial Power Users Group. [Tr. 199-200] The use of a third party for transmission service does not change this position since 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] The purchaser in an economy transaction should be allowed to recover the purchase price, including

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the transmission component, just as it has done in the past before the transmission component was separated as a line item. This is because 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]

Florida Power and Light and Florida Industrial Power Users Group take the position that the selling utility in an economy transaction should credit the transmission service revenues to its fuel cost recovery clause. 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 doing so would result in a "double-dipping" with regard to the selling utility because the selling utility would be crediting the same revenues twice: once to the transmission service customers through subsequent annual adjustments to transmission rates under the jurisdiction of the Federal Energy Regulatory Commission, and a second time to all retail customers through the fuel cost recovery clause. [Tr. 199-200, 205-06] The long-term impact of this "double-dipping" would be that the retail customers would pay more in base rates.

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. Thus, the wholesale customers would pay less transmission service cost leaving these costs to the retail customers. The seller only receives one revenue

stream but, under the proposals adopted by other utilities in this docket, would provide credit for these revenues to the customers twice. This would be an inequitable result. The eventual result of this "double-dipping" would be that retail customers would pay more in base rates. [Tr. 196]

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; they should not be treated like a fuel item and should not be flowed through the fuel cost recovery clause.

CONCLUSION

The treatment of the transmission service cost component of economy transactions should be different depending upon whether it is viewed from the position of the buying utility or 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 26th day of September, 1997.



JEFFREY A. STONE

Florida Bar No. 325953

RUSSELL A. BADDERS

Florida Bar No. 7455

Beggs & Lane

P. O. Box 12950

(700 Blount Building)

Pensacola, Florida 32576-2950

(904) 432-2451

Attorneys for Gulf Power Company

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

I HEREBY CERTIFY that a true copy of the foregoing was furnished by hand delivery or the U. S. Mail this 26th day of September 1997 on the following:

Vicki D. Johnson, Esquire
FL Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0863

Jack Shreve, Esquire
Office of Public Counsel
111 W. Madison St., Suite 812
Tallahassee FL 32399-1400

James McGee, Esquire
Florida Power Corporation
P. O. Box 14042
St. Petersburg FL 33733-4042

Matthew M. Childs, Esquire
Steel, Hector & Davis
215 South Monroe, Suite 601
Tallahassee FL 32301-1804

Suzanne Brownless, Esquire
Miller & Brownless, P.A.
1311-B Paul Russell Road
Suite 201
Tallahassee FL 32301


Joseph A. McGlothlin, Esq.
McWhirter, Reeves, McGlothlin,
Davidson, Rief & Bakas, P.A.
117 S. Gadsden Street
Tallahassee FL 32301

Lee L. Willis, Esquire
James D. Beasley, Esquire
Macfarlane Ausley Ferguson
& McMullen
P. O. Box 391
Tallahassee FL 32302

John W. McWhirter, Jr., Esq.
McWhirter, Reeves, McGlothlin,
Davidson, Rief & Bakas, P.A.
P. O. Box 3350
Tampa FL 33601-3350

William B. Willingham, Esq.
Rutledge, Ecenia, Underwood,
Purnell & Hoffman, P.A.
P. O. Box 551
Tallahassee FL 32302-0551

Michael B. Twomey, Esquire
P. O. Box 5256
Tallahassee FL 32314-5256


JEFFREY A. STONE
Florida Bar No. 325953
RUSSELL A. BADDERS
Florida Bar No. 0007455
BEGGS & LANE
P. O. Box 12950
Pensacola FL 32576
(850) 432-2451
Attorneys for Gulf Power Company