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ORIGINAL

September 29, 1997

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Fuel and Purchased Power Cost Recovery Clause
with Generating Performance Incentive Factor;
FPSC Docket No. 970001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and ten copies of Tampa Electric Company's Reply Brief.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,


James D. Beasley

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JDB/pp
Enclosures

cc: All Parties of Record (w/enc.)

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FPSC-RECORDS/REPORTING

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 970001-EI
FILED: September 29, 1997

REPLY BRIEF OF TAMPA ELECTRIC COMPANY

I. Introduction

The Commission's current regulatory treatment of wholesale sales made through the Florida Broker is to divide the margin from these sales on a 80%/20% basis, with 80% flowed through to the retail ratepayers through the fuel clause and the remaining 20% allocated to shareholders below the line¹. If broker-related transmission revenues are to be given separate treatment by this Commission then such revenues should be treated above the line, in the same manner as other third-party transmission revenues. Several of the parties argue in their Initial Briefs that separate above the line treatment of broker-related transmission revenues is adverse to the retail ratepayers' interests. As discussed below, in so arguing, they have either ignored or misapplied several important principles and key facts.

¹ The 80/20 split is done after the portion of the margin attributable to wholesale customers has been deducted.

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II. The FERC has clearly stated that no fixed costs may be added to a split-the-savings transaction price and that the buyer must obtain at least 50% of the margin resulting from such transactions.

The Office of Public Counsel ("OPC") and Florida Power & Light ("FP&L") argue that the wheeling charge should be billed separately to the buyer and subtracted from the buyer's decremental cost. They assert that the remainder should be averaged with the seller's incremental fuel costs to calculate the transaction price for an economy, schedule C, broker transaction. The FERC, in an exercise of its jurisdiction over the pricing of broker transactions, has expressly prohibited this approach. In effect, FERC has required that self transmission costs must be accounted for within the seller's share of the total margin. Subtraction of seller's transmission cost from the buyer's decremental cost and the subsequent calculation of the transaction price would have the dual effect of denying the buyer the opportunity to receive at least 50% of the benefits and adding fixed cost to the transaction price. It is difficult, therefore, to understand why these parties are urging, in effect, that this Commission modify the FERC pricing guidelines for purposes of this proceeding.

FP&L has applied to the FERC for authorization to use a pricing methodology which would allow the addition of transmission (fixed) cost to a split the savings transaction price for broker sales. This proposal has been accepted, subject to refund, and protested. FERC has yet to make a decision. These facts do not suggest any current alteration of FERC's split the savings pricing guidelines. Even if FERC were to ultimately approve FP&L's

modified pricing proposal, such approval would not automatically extend to other jurisdictional utilities.

III. OPC has misconstrued both FERC's policy purpose in issuing Order 888 and the resulting methodology, as reflected in Tampa Electric's proposed treatment of broker-related transmission revenues in this proceeding.

All of the parties seem to be in general agreement that the fundamental purpose of Order 888 is to assure that a transmission owner cannot gain a competitive advantage by charging a wheeling rate to other potential sellers while ignoring those same transmission costs for its own sales. However, OPC extrapolates from this general understanding, that FERC's definition of a "level playing field" contemplates a competitive market where sellers compete on the basis of fuel cost alone. As illustrated by the example discussed at Pages 3-4 of OPC's Initial Brief, OPC has misunderstood FERC's policy intentions and Tampa Electric's proposed methodology.

OPC posits a case where:

- 1) Incremental avoided cost of Buyer, B, is \$30;
- 2) Incremental cost of production for Tampa Electric is \$20 and its self-wheeling cost is \$3;
- 3) Utility C is adjacent to Tampa Electric but non-adjacent to B and, therefore, must incur third-party wheeling cost on Tampa Electric's system to get to C; and
- 4) Utility C's incremental fuel cost is \$18.

On the basis of these assumptions, OPC incorrectly concludes that Tampa Electric's approach to pricing would result in a transaction

price of \$25 if Tampa Electric were to sell to B and a higher transaction price of \$25.50 if C were to sell to B. In fact, Tampa Electric's methodology, if properly applied, would result in a \$25 transaction price for itself and a \$24 transaction price for C ($\$18 + (\$30 - \$18/2)$). This is the way that the broker mechanism currently matches buyers and sellers and calculates the transaction price. The result would be that utility C rather than Tampa Electric would make the sale, provided that utility C's self transmission cost is less than \$6. As was the practice prior to the issuance of Order 888, third-party transmission costs would be separately billed to C, resulting in a total cost to C of \$27.

FERC's goals are accomplished under this scenario since Tampa Electric does not avoid its own transmission charge in competing with C. The fact that C's incremental fuel cost is lower than Tampa Electric's in this scenario is reflected in the fact that C's margin would be larger than Tampa Electric's for the same transaction. To the extent that this larger margin is not sufficient to cover C's incremental costs and buyer's third party transmission costs, then consummation of the sale between C and B would not be the most economically efficient result. In this sense, the playing field is level. The fact that Tampa Electric is able to avoid third party transmission expense in this example, due to its proximity to the customer, does not give it an undue competitive advantage over C. Instead, this result is an example of the kind of fair wholesale competition which the FERC and this Commission, through the Florida Broker, intend to encourage.

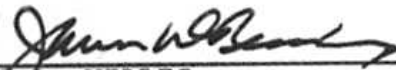
IV. Above-the-line, base rate treatment of broker-related transmission revenue is consistent with Commission treatment of other short term transmission revenue and recognizes that retail customers are not supporting 100% of the transmission investment.

Transmission costs and revenues are base rate items which are consistently addressed by both FERC and this Commission in the context of base rate proceedings. Transmission-related revenue requirement is borne by retail customers, wholesale requirements customers, long-term firm customers and short-term transmission users. If this Commission requires that broker-related transmission revenue be flowed through the fuel clause, these transmission revenues will be the only class of transmission revenues not handled above the line and addressed, directly or indirectly, in a base rate proceeding. Given FERC's requirement that all of these broker-related transmission revenues be treated as a revenue credit in the next transmission rate proceeding, disparate treatment of these revenues by this Commission would create significant potential for confusion and misallocation of costs and revenues among transmission users.

As discussed in its Initial Brief, Tampa Electric's proposed treatment of broker-related transmission revenue is entirely consistent with this Commission's treatment of third-party transmission revenue. In addition, retail ratepayers see the full benefit of these revenues in the form of enhanced refund potential under Tampa Electric's current rate stipulation, and decreased revenue requirements when rates are next adjusted.

DATED this 29th day of September, 1997.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of Tampa Electric Company's Reply Brief has been furnished by U. S. Mail or hand delivery (*) on this 29th day of September, 1997 to the following:

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