BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause and generating performance incentive factor.	DOCKET NO. 980001-EI ORDER NO. PSC-98-0073-FOF-EI ISSUED: January 13, 1998

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
SUSAN F. CLARK
JOE GARCIA

ORDER DETERMINING APPROPRIATE TREATMENT OF TRANSMISSION REVENUES AND COSTS FOR SCHEDULE C, ECONOMY ENERGY TRANSACTIONS

BY THE COMMISSION:

The Federal Energy Regulatory Commission's (FERC) Order 888, issued April 24, 1996, required investor-owned electric utilities to unbundle transmission and ancillary charges from economy energy sales. The primary purpose of FERC's unbundling requirement was to remove or reduce the competitive advantage that a transmission owner had in favor of its own power sales. Florida Power & Light Company (FPL), Florida Power Corporation (FPC), Gulf Power Company (Gulf) and Tampa Electric Company (TECO) filed amendments to their existing economy coordination tariffs on January 1, 1997, at FERC. FERC has not yet ruled on these tariffs. Each of the utilities implemented the tariffs on an interim basis, subject to refund, as of January 1, 1997. Prior to FERC Order 888, the utilities used a consistent pricing and cost recovery methodology for broker sales. However, each of the four utilities have implemented a different method of pricing and/or cost recovery for broker transactions subsequent to the FERC Order.

Four issues concerning the pricing and cost recovery of broker sales were addressed during the August 14-15, 1997, hearing in this Docket. The Florida Industrial Power Users Group (FIPUG) and the Office of Public Council (OPC) intervened in this proceeding. FPL, FPC, Gulf, TECO, FIPUG and OPC participated in the August evidentiary hearing and filed post hearing briefs. A recommendation was filed on December 4, 1997, for consideration at the December 16, 1997, Agenda Conference. Having considered all the evidence and the arguments of the parties, we now render our decision.

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Transmission Cost and Pricing of Broker Sales Between Two Directly Interconnected Utilities

The first issue is the manner in which transmission costs should affect the transaction price of an economy, Schedule C, broker transaction between two directly interconnected utilities.

The Florida Energy Broker Network was designed to replicate an economic dispatch for hourly non-firm economy sales. Prior to FERC Order 888, buy and sell quotes were based on incremental system costs and any applicable variable O&M costs. Transmission costs were not included in broker quotes. Matches were made on the broker system by maximizing savings between the buyer's decremental production cost and the seller's incremental production cost. A transaction price was then determined by averaging the buyer's and seller's quotes. For example, the transaction price for a sale between a buyer with a quote of $30 and a seller with a quote of $20 would be $25. This practice maximizes the statewide savings for participants.

There is disagreement among the four utilities as to whether the FERC unbundling requirement for existing agreements allows an additional charge for transmission for broker transactions involving two adjoining utilities. FPC and TECO stated that for existing agreements, FERC would not allow an additional transmission charge to be added to the existing transaction price when a 'split-the-savings' pricing approach was used. Both FPL and Gulf believe that an additional charge was allowed. FPL's witness Villar stated that FERC's position on whether an additional transmission charge can be added was unclear and would be settled through litigation before FERC.

The following table summarizes the pricing methodology proposed by each utility when there are only two utilities involved, a buyer and a seller.

	FPC	TECO	FPL	GULF
Sell Quote	$20	$20	$20	$20
Buy Quote	$30	$30	$27	$30
Transaction Price	$25	$25	$23.50	$25
Seller's Margin	$5	$5	$3.50	$5

Buyer Billed For Transmission	$0	$0	$3	$3
Buyer's Total Cost	$25	$25	$26.50	$28

Under the pricing methodologies of FPC and TECO, matches are made based on the incremental system production cost, just as before FERC Order 888. For example, the transaction price for a sale between a seller with incremental system costs of $20 and a buyer with decremental system costs of $30 would remain $25. Both FPC and TECO unbundled a transmission charge from the existing transaction price, resulting in a total cost to the buyer of $25. FPC includes a separate charge for transmission for economy sales made pursuant to new agreements executed after July 9, 1996. However, FPC stated that these economy sales are not made on the broker system.

Gulf only makes economy sales as a part of Southern Company. As in FPC's and TECO's methodology, under Gulf's methodology, matches are made based on the incremental production cost. The transaction price remains $25, just as before FERC Order 888. However, the buyer is billed separately for the $3 transmission charge, resulting in a total cost for the buyer of $28.

We agree with the positions of FPC, TECO and Gulf. Matches should be made based on the incremental system production cost, just as before FERC Order 888. This will maintain the original purpose of the broker system to maximize statewide incremental system cost savings for participants. Consistent with Gulf's methodology, any transmission charge required by the FERC Order should not influence the matches made on the broker system and the gains associated with broker sales. We find that this is appropriate because the transmission charge is not an incremental production cost associated with the sale, but a contribution to fixed costs.

In contrast to FPC, TECO and Gulf, under FPL's methodology, the transmission charge affects the transaction price of a broker sale. FPL proposes to subtract the transmission charge from the buyer's quote before determining the transaction price. For example, if FPL were the seller with a quote of $20, the buyer's quote of $30 would be reduced by FPL's transmission charge ($3) to $27. According to FPL's witness, Villar, FPL's quote of $20 and the buyer's adjusted quote of $27 are then averaged by the broker system to obtain a transaction price of $23.50. The resulting gain

is then $3.50. FPL would then bill the buyer separately for the $3 transmission charge, resulting in a total cost to the buyer of $26.50. It appears that OPC has adopted FPL's methodology as an interim method.

We disagree with FPL's pricing methodology because the transaction price should not be affected by the transmission charge, which is not an incremental cost of the sale. We disagree with the assertion that FPL's proposed pricing methodology is "just like it is done for transactions between non-directly interconnected utilities." (Tr. 100-101) It is clear from the record that for non-directly interconnected utilities, a separate wheeling charge is added to the transaction price, resulting in the buyer paying the **full** transmission charge. For a wheeled sale, the buyer would pay a $3 wheeling fee in addition to the $25 transaction price, resulting in an effective price of $28, just as in Gulf's methodology. In contrast, FPL's pricing methodology results in a cost of $26.50 for the buyer and has the effect of splitting the transmission charge between the buyer and the seller.

Therefore, we hold that the transaction price of a broker sale between two directly interconnected utilities shall be based on the incremental system production cost, just as before FERC Order 888. Any transmission charge required by FERC Order 888 should not influence the gain on a broker sale. Any FERC required transmission costs shall be added after the broker has matched a buyer and seller. This method preserves the intent of the broker system.

Transmission Cost Recovery for Broker Sales Between Two Directly Interconnected Utilities

The next issue to be resolved is the manner in which transmission costs should be recovered for an economy, Schedule C, broker transaction between two directly interconnected utilities.

RECOVERY FOR THE SELLER:

Our policy on the treatment of the costs of economy sales was established in 1977. Selling utilities were allowed to recover the fuel component of economy energy sales through the Fuel and Purchased Power Cost Recovery clause (fuel clause). The profit margin, or gain, on economy sales was included in base rates. Order No. 12923, issued January 24, 1984, in Docket No. 830001-EU-B, removed economy energy sales profits from base rates and

required that these gains be credited to the fuel clause. The Order further stated that the economy energy gains were to be divided between ratepayers and stockholders on an 80%-20% basis.

As a result of the FERC unbundling requirement, each of the four utilities is following a different cost recovery method for economy sales. Based on a hypothetical $20 sell, $30 buy, and $3 transmission quote, the following table summarizes the utilities' methods as well as the effect of our findings on each utility:

Before 888			**After 888**							
All IOUs			**FPC**	**FPSC**	**FPL**	**FPSC**	**Gulf**	**FPSC**	**TECO**	**FPSC**
A	Transaction price	$25.0	$25.0	$25.0	$23.5	$23.5	$25.0	$25.0	$25.0	$25.0
B	Additional trans-mission charge	$0.0	$0.0	$0.0	$3.0	$3.0	$3.0	$3.0	$0.0	$0.0
C	Buyer's cost (A+B)	$25.0	$25.0	$25.0	$26.5	$26.5	$28.0	$28.0	$25.0	$25.0
D	Less incremental fuel cost	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0
E	Less credit to oper. revenue (trans. revenue)	$0.0	$0.0	$0.0	$0.0	$0.0	$3.0	$0.0	$3.0	$0.0
F	Less credit to fuel clause (trans. revenue)	$0.0	$0.75 ($0.00 retail)	$0.0	$3.0	$3.0	$0.0	$3.0	$0.0	$0.0
G	Net gain (C-D-E-F)	$5.0	$4.25 ($4.15 retail)	$5.0	$3.5	$3.5	$5.0	$5.0	$2.0	$5.0
H	Credit to fuel clause (.80 * G)	$4.0	$3.32 (retail)	$4.0	$2.8	$2.8	$4.0	$4.0	$1.6	$4.0
I	Below the line (.20 * G)	$1.0	$0.83	$1.0	$0.7	$0.7	$1.0	$1.0	$0.4	$1.0

Prior to FERC Order 888, the transaction price of the example sale above would be $25, with a $5 gain for the seller. The gain would be split 80%-20% between ratepayers ($4) and stockholders ($1). (See rows H and I in Table above.) As a result of the FERC Order, the utilities proposed four different cost recovery methods. This ultimately affects the gains from economy sales and therefore the credit to the seller's ratepayers through the fuel clause.

Our holdings herein attempt to maintain the level of gains the same as before FERC Order 888. This will hold ratepayers harmless to the FERC Order, which has imposed no additional costs. We define the gain on each sale as the total revenue minus incremental system costs and any transmission charge which is separately billed to the buyer. Under the hypothetical, the gain for FPC, Gulf and TECO is $5 (See row G in Table above). This is split 80%-20% between ratepayers ($4) and shareholders ($1), the same as before FERC Order 888. We disagree with the cost recovery method proposed by FPC because of the separations method applied. We also disagree with TECO's cost recovery method because TECO is crediting the portion of the original gain the company has 'earmarked' for transmission to operating revenues. These issues are discussed further below.

As displayed in the table above, our findings do not result in the same gain for FPL as before FERC Order 888. FPL is the only utility for which the transaction price changed subsequent to the FERC Order. However, maintaining the same gain for FPL would require imputing revenues and recreating hourly broker matches. We find that to the extent possible, stockholders and ratepayers should not be harmed by the FERC Order.

An important aspect of the seller's recovery is the regulatory mechanism through which transmission revenues are credited. Economy sales have traditionally been treated as non-separated sales by this Commission. In Order No. PSC-97-0262-FOF-EI, issued March 11, 1997, in Docket No. 980001-EI, the Commission reconfirmed its policy of crediting all revenues resulting from non-separated sales through the fuel and capacity cost recovery clauses. The Order states:

> Because non-separated sales are sporadic, a utility does not commit long-term capacity to the wholesale customer. Non-separable sales are not assigned cost responsibility through a separation process, therefore the retail ratepayer supports all of the investment that is used to make the sale. In exchange for supporting the investment, the retail ratepayer receives all of the revenues, both fuel and non-fuel, that the sale generates through a credit in the fuel and capacity cost recovery clauses. For Broker sales, the utility's shareholders receive 20 percent of the profit associated with the sale. (Pg. 2)

The evidence adduced in this proceeding does not support a deviation from our policy. The transmission charge required by the FERC Order is a contribution to fixed transmission costs, not an incremental cost associated with the sale. Since fixed transmission expenses are included in retail base rates and fully supported by retail customers for non-separated sales, retail ratepayers should benefit fully from the transmission revenues generated by economy sales. We disagree with TECO's witness, Branick, that crediting these revenues to operating revenues will allow retail customers to benefit fully from transmission related revenues. If this revenue is credited to operating revenues, as suggested by TECO and Gulf, retail ratepayers will only benefit by a base rate type of proceeding, such as a rate case or an overearning stipulation, applicable only to the specific utility. In contrast, if transmission revenues are credited to the fuel clause, as suggested by FPL, FIPUG, OPC and FPC, retail ratepayers will be fully compensated for their investment in the facilities used to make the sale. FPC also stated that to the extent the company collects additional revenues for transmission, the additional revenue should be credited to operating revenues. However, under FPC's methodology, additional transmission revenue is only collected for economy sales made outside the broker system.

Further, transmission revenues from economy sales between directly interconnected utilities were not anticipated as a credit to operating revenues when base rates were set. It follows that base rates are higher than they would have otherwise been for the seller. Crediting operating revenues with these transmission revenues, without a downward adjustment to base rates would result in a windfall for the seller.

Finally, we do not find Gulf's and TECO's argument that FERC requires non-firm transmission revenues to be treated as a 'revenue credit' a compelling reason to credit the seller's transmission revenues from broker sales to operating revenues. According to TECO's witness Kordecki, in Order 888A, FERC "explained that revenue from non-firm transmission services should continue to be reflected as a revenue credit in the derivation of firm transmission tariffs." (Tr. 235) Gulf's witness, Howell, uses this FERC requirement to argue that if these revenues were credited to the fuel clause, the utility would be required to credit the revenue twice, resulting in an underrecovery for the selling utility. No additional supporting evidence beyond the testimony of witnesses Kordecki and Howell was supplied by Gulf or TECO explaining this FERC requirement. It also appears that the

testimony of TECO's witness Branick conflicts with the testimony provided by TECO's witness Kordecki. Branick stated that TECO's treatment of these transmission revenues was consistent with our policy of crediting third party transmission revenues to operating revenues for **retail** ratemaking purposes, rather than crediting to wholesale customers in the establishment of firm transmission rates. FPL and FPC did not express concern about this issue.

Another important aspect of the seller's recovery is the separation factor for transmission revenues. Currently, both the fuel costs and gain from economy sales are separated between retail and wholesale customers based on energy. This separation occurs automatically for all revenues and expenses flowing through the fuel clause. However, FPC believes that the seller's transmission revenues should be separated by a transmission-related separations factor before any gains on economy sales are calculated. For FPC, "jurisdictional responsibility for retail customers is approximately 95% for generation-related and 75% for transmission-related," expenses. (Tr. 60) According to FPC's calculations, applying the transmission-related separations factor to this revenue results in a reduced credit to retail customers through the fuel clause for sales under existing economy agreements.

We do not agree with FPC. The transmission-related separations factor FPC was referring to was the result of the separations, or cost of service, study applied in the establishment of base rates. This separation factor allocates a portion of transmission costs to separated wholesale sales. As noted above, economy sales are non-separated sales. In a sense, FPC is asking that these non-separated sales be treated as separated sales. We see no compelling reason for applying a base rate separations factor to non-separated sales. Previously, we have clearly stated that revenues from non-separated sales should be credited to retail customers to compensate them for supporting the investment used in making these sales.

Therefore, we hold that the gains from broker sales should be the same before and after FERC Order 888. We define the gains from broker sales as the total revenue minus incremental system cost and any transmission charge which is separately billed to the buyer. The gains from broker sales shall be split 80%-20% between ratepayers and shareholders pursuant to Order No. 12923, issued January 24, 1984, Docket No. 830001-EU-B. Any additional transmission revenues which are separately billed to the buyer shall be credited to the fuel clause of the selling utility. These

additional transmission revenues shall be separated based on energy in accordance with the normal procedure established for the fuel clause of the selling utility. Each utilities' fuel clause shall be adjusted to reflect our decision in this docket effective January 1, 1997, for all broker transactions. Each utility shall reflect the impact of our decision in its projection testimony and filing in Docket No. 980001-EI.

RECOVERY FOR THE PURCHASER:

All costs for economy purchases are currently recovered through the fuel clause for the purchaser. (Tr. 92) There is agreement among all the parties participating in this docket that the full cost of economy purchases between directly interconnected utilities, including any new transmission charges resulting from the FERC Order, should continue to be recovered through the fuel clause.

We agree that the total cost of an economy purchase should be recovered through the fuel clause. The purchaser of economy energy has a choice between purchasing or generating the power. If the purchaser were to generate the power, the associated incremental system costs would be recovered through the fuel clause. The full costs of an economy purchase should be recovered in the same manner to avoid false incentives in favor of generation or purchase alternatives with relatively low transmission charges. If the transmission charge is recovered through base rates rather than the fuel clause, there is no guarantee that the purchaser will choose the least cost alternative.

Therefore, we hold that all actual costs of a broker purchase, including any transmission costs, shall be recovered through the fuel clause.

Transmission Costs and Pricing of Wheeled Broker Sales

This section addresses the manner in which transmission costs should affect the transaction price of an economy, Schedule C, broker transaction that requires wheeling between two non-directly interconnected utilities.

The FERC unbundling requirement has not affected the pricing methodology for wheeled sales on the broker system. The broker match for a wheeled sale is still made based on maximizing incremental system cost savings. The wheeling fee is then added to

the buyer's cost and billed separately to the buyer. We find that this is appropriate and should not change due to FERC's requirement that the seller unbundle transmission costs.

FPC, TECO, Gulf and FIPUG agree that the FERC unbundling requirement should not affect the pricing methodology for a wheeled sale. However, OPC appears to adopt the pricing methodology proposed by FPL for sales between directly interconnected utilities as an interim methodology for wheeled sales. We disagree that FPL's pricing methodology is "just like it is done for transactions between non-directly interconnected utilities." (Tr. 100-101) It is clear from the record that for non-directly interconnected utilities, a separate wheeling charge is added to the transaction price, resulting in the buyer paying the **full** transmission charge. For a wheeled sale, the buyer would pay a $3 wheeling fee in addition to the $25 transaction price, resulting in an effective price of $28.

Therefore, we hold that transmission wheeling costs should continue to be added to the broker transaction price after a match is made to determine the purchaser's total price.

Transmission Cost Recovery for Wheeled, Schedule C, Broker Transactions

This section addresses the manner in which transmission costs should be recovered between non-directly interconnected utilities.

We treat third party wheeling revenues uniformly. For non-broker sales, either short-term firm or non-firm, wheeling revenues are credited to operating revenues by the wheeler. Likewise, third party wheeling revenues associated with broker sales are currently credited to operating revenues by the wheeler.

Unlike transmission revenues for the seller, transmission revenues for the wheeler of an economy sale were included in the determination of base rates during the last rate case for each of the utilities. Base rates are therefore lower than they would have been if these revenue credits were not considered. Requiring that wheeling revenues be credited to the fuel clause without an upward adjustment to base rates could result in an underrecovery for the wheeling utility. We agree with FPL, FPC, Gulf and TECO that wheeling revenues should continue to be credited to operating revenues.

We disagree with FIPUG's and OPC's position that third party wheeling revenues from broker sales should be credited to the fuel clause. No evidence was presented which would justify treating third party wheeling revenues from economy sales differently than that for other wheeled sales as a result of the FERC Order.

Therefore, we hold that all costs for the purchaser, including any third party wheeling fees, shall continue to be recovered through the fuel clause. In addition, all third party wheeling revenues shall continue to be treated as a credit to operating revenues.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that, as set forth in the body of this Order, the transaction price of a broker sale should be based on the incremental system production cost, just as before FERC Order 888. Any transmission charge required by FERC Order 888 should not influence the gain on a broker sale. As outlined in Gulf's proposal, any FERC-required transmission costs should be added after the broker has matched a buyer and seller. This method preserves the intent of the broker system. It is further,

ORDERED that the gains from broker sales should be, to the extent possible, the same before and after FERC Order 888. Furthermore, because broker sales are non-separated sales, any additional transmission revenues shall be credited and separated according to the normal procedure within the fuel adjustment clause of the selling utility. For the purchaser, all actual costs shall continue to be recovered through the fuel clause. It is further

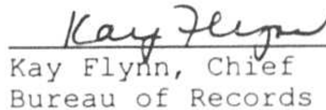
ORDERED that the fuel clause shall be adjusted to reflect the Commission's decision effective January 1, 1997, for all broker transactions. It is further

ORDERED that transmission wheeling costs shall continue to be added to the broker transaction price after a match is made to determine the purchaser's total price. It is further

ORDERED that third party wheeling revenues shall continue to be treated as a credit to operating revenues for the wheeling utility. Wheeling costs shall continue to be recovered through the fuel clause for the purchaser.

By ORDER of the Florida Public Service Commission this 13th day of January, 1998.

BLANCA S. BAYÓ, Director
Division of Records and Reporting



Kay Flynn, Chief
Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.