

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Calculation of gains and appropriate regulatory treatment for non-separated wholesale energy sales by investor-owned electric utilities.

Docket No. 010283-EI

Filed: June 25, 2001

FIPUG's Prehearing Statement

Pursuant to the Order Establishing Procedure, Order No. PSC-01-0571-PCO-EI, the Florida Industrial Power Users Group (FIPUG) files its Prehearing Statement.

A. APPEARANCES:

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B. WITNESSES:

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
<u>Direct</u> Gerard J. Kordecki	Appropriate calculation of gains	All

DOCUMENT NUMBER-DATE
07844 JUN 25 2001
FPSC-RT RECORDS/REPORTING

Rebuttal None.

C. EXHIBITS:

None.

D. STATEMENT OF BASIC POSITION:

In this docket, the Commission is concerned with implementing the new incentive mechanism it adopted in Order No. PSC-00-1744-PAA-EI. In that order, the Commission adopted a shareholder incentive mechanism applicable to all "gains" from all non-separated wholesale power sales (other than emergency sales) based on a three year moving average of "gains." FIPUG protested that order as it relates to two aspects of the calculation. First, it protested the calculation of "incremental cost", which is an important in-put to the gain calculation. Second, it protested the portion of the calculation related to O & M costs.

Any formula for calculating "gains" on non separated wholesale sales should consider all the costs of the sales . As to the calculation of incremental fuel costs related to generating the energy for wholesale sales, it is FIPUG's position that the cost of power purchases must be considered in that calculation. When a utility has sold power in the wholesale market which could have been used to serve its retail rate payers and is then forced to purchase other power to serve the retail customers, the costs of the purchased power must be factored into incremental costs. Therefore, when the incremental cost of purchased power is incremental cost. This cost should be used as the cost of the non-separated wholesale sale and must not be directly reflected in the retail fuel clause or buy through power.

As to O & M costs, it is FIPUG's position that all O & M expenses related to a wholesale sale should be credited 100% to the appropriate recovery clause. If the utility incurs a specific and identifiable out of pocket non fuel O&M expense attributable to the sale, it may retain the revenue collected to recover that expense unless the expense is already being recovered from retail customers through base rates. There should be no double collection of costs. All revenue collected from wholesale transactions must be credited to retail customers through cost recovery clauses less the sum authorized as an incentive to make the sale. For example, no portion of the revenue received from a wholesale transaction may be retained below the line by the utility to recover the wages, salaries and general overhead costs attributable to the wholesale sale because these expenses are covered by base rates. The wholesale revenue should be credited to retail customers through cost recovery clauses.

Any change made to the methodology or calculation must be made retroactive to January 1, 2001.

E. STATEMENT OF ISSUES AND POSITIONS:

ISSUE 1: What is the appropriate regulatory treatment for Gulf Power Company's SO₂ emission allowances associated with its non-separated wholesale energy sales?

FIPUG: No position at this time.

ISSUE 2: What is the appropriate regulatory treatment for the cost of fuel and purchased power associated with non-separated wholesale energy sales?

FIPUG: The Commission should consider a utility's purchase power costs in the incremental cost calculation. If there are any purchased power costs which are higher than the marginal generating costs of a utility's own units, such cost shall be included as the cost of a non-separated sale. When purchased power cost is the highest cost power on a utility's system, it is the incremental cost.

When a utility sells power from its generating units in the wholesale market and then purchases higher priced power to serve its retail customers, the higher priced purchased should be used as the cost associated with the sale and not allocate and should not be allocated to retail or buy through customers.

ISSUE 3: What is the appropriate regulatory treatment for the operation and maintenance (O&M) expenses associated with non-separated wholesale energy sales?

FIPUG: Because it is very difficult to quantify O & M costs that are not already being collected in base rates, the burden, as with all other costs a utility seeks to recover, should be on the utility. All O & M expenses related to a wholesale transaction should be credited back 100% to the applicable recovery clause even when they exceed the wholesale revenue unless the utility collects revenue from the wholesale customer to cover the cost and can demonstrate that the O&M cost would not exist without the sale.

ISSUE 4: How should the Commission implement Part II of Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000, concerning the application of incentives to wholesale energy sales?

FIPUG: The changes set out in Issue Nos. 2 and 3 above should be incorporated in the calculation of any incentive. Any change, pursuant to prior Commission order, shall be effective January 1, 2001.

ISSUE 5: Should this docket be closed?

FIPUG: Yes, after the appropriate adjustments as recommended by FIPUG are made.

F. STIPULATED ISSUES:

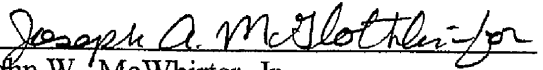
None.

G. PENDING MOTIONS:

None.

H. OTHER MATTERS:

None at this time.


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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing FIPUG's Prehearing Statement has been furnished by (*) hand delivery, or U.S. Mail this 25th day of June, 2001, to the following:

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