



Florida Power
A Progress Energy Company

ASSOCIATE GENERAL COUNSEL

ORIGINAL

JAMES A. MCGEE

September 24, 2001

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

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COMMISSION
CLERK

Re: Docket No. 010283-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket are an original and fifteen copies of the Post-Hearing Statement of Florida Power Corporation.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3.5 inch diskette containing the above-referenced document in WordPerfect format. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

JAM/scc
Enclosure

cc: Parties of record

- APP _____
- CAF _____
- CMP _____
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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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

Submitted for filing:
September 24, 2001

**POST-HEARING STATEMENT OF
FLORIDA POWER CORPORATION**

Florida Power Corporation (FPC), pursuant to Order No. PSC-01-1547-PHO-EI, issued in this docket by the Prehearing Officer on July 26, 2001, hereby submits its Post-Hearing Statement and states as follows:

FPC's Basic Position

The modification to Item 1 of Order No. PSC-00-1744-PAA-EI, Part III (the PAA Order) proposed in FIPUG's protest of the PAA Order is completely unworkable and counterproductive, and was unsupported by the testimony of any witness in this proceeding, including FIPUG's witness. Any uncertainty as to whether the incremental costs identified in Item 1 include incremental costs associated with purchased power can be resolved by a simple amendment to that effect.

FPC's Positions and Argument on the Issues

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

* **FPC:** No position.

DOCUMENT NUMBER - DATE

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

* **FPC:** Item 1 in the PAA Order describes the appropriate treatment. However, if the Commission finds Item 1 should more clearly encompass the incremental cost of purchased power, a simple modification of Item 1 to that effect would be sufficient. FIPUG's proposed modification is inappropriate and should be rejected.

Argument:

FPC believes Item 1 in the PAA Order is sufficiently clear and produces the proper result without the need for significant modification. Item 1 states simply that:

“Each IOU shall credit its fuel and purchased power cost recovery clause for an amount equal to the incremental fuel cost of generating the energy for each such sale.”

If, however, the Commission should have a concern that Item 1's reference to “the incremental fuel cost of generating the energy” may not be understood to encompass the incremental cost of energy generated either by the utility or by another and then purchased by the utility (whichever is at the increment), a simple clarification to that effect is all that would be required. For example, the quoted phrase in Item 1 could be modified to read “... the incremental ~~fuel~~ cost of generating or purchasing the energy” (Tr. 30-31)

In determining the incremental cost of a non-separated wholesale sale, the objective is *not* to identify the utility's highest cost generation resource at the time of the sale, as suggested by FIPUG's witness (Tr. 182), but rather to identify the utility's highest *incremental* cost resource. The importance of this distinction concerns purchased power generation resources. For example, suppose a utility were to make a non-separated wholesale sale for \$75 per MWh at a time when it is making a "take or pay" purchase at \$60 per MWh and dispatching its highest cost generation at \$50 per MWh. Since the "take or pay" purchase would necessarily have an incremental cost of zero (and would be dispatched at the bottom of the utility's economic dispatch stack), the incremental cost of the sale would \$50 per MWh, not \$60 per MWh, with a gain of \$25 per MWh. (Tr. 49-50)

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

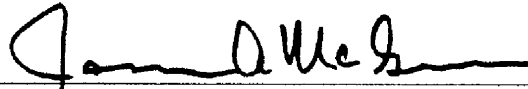
* **FPC**: Item 3 in the PAA Order describes the appropriate treatment. Variable O&M expenses and related revenues associated with non-separated wholesale sales are base rate items and should therefore be excluded from the calculation of the gain on non-separated wholesale energy sales.

4. ISSUE: 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?

- * **FPC:** Part II of the order should be implemented in a manner consistent with Exhibit No. 3, Staff's memorandum dated September 20, 2000.

Respectfully submitted,

FLORIDA POWER CORPORATION

By 

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FLORIDA POWER CORPORATION

DOCKET NO. 010283-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the Post-Hearing Statement of Florida Power Corporation has been furnished to the following individuals by regular U.S. Mail this 24th day of September, 2001.

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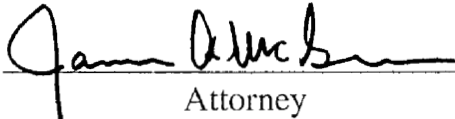
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