Marguerite McLean 090001-EI

From: Rogers, Mallory [MAROGER@SOUTHERNCO.COM]
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Attachments: 090001 Gulfs Post Hearing Briefs.pdf

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B. Docket No. 090001-EI

C. Gulf Power Company

D. Document consists of 9 pages.

E. The attached document is Gulf's Post Hearing Statement of Issues and Positions and Post Hearing Brief.

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GULF POWER
A SOUTHERN COMPANY

November 12, 2009

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0850

Dear Ms. Cole:

RE: Docket No. 090001-EI

Enclosed are the Post Hearing Statement of Issues and Positions and Post-Hearing Brief of Gulf Power Company to be filed in the above docket.

Sincerely,

Susan D. Ritenour

mr

Enclosures

cc: Beggs & Lane
Jeffrey A. Stone, Esq.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: **Fuel and Purchased Power Cost**)
Recovery Clause with Generating)
Performance Incentive Factor) Docket No.: **090001-EI**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by U. S. mail this 12th day of November, 2009, on the following:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power Cost	)	
Recovery Clauses and Generating	)	Docket No. 090001-EI
Performance Incentive Factor	)	Date Filed: November 12, 2009
	)	
	)	

POST-HEARING STATEMENT OF ISSUES AND POSITIONS AND POST-HEARING BRIEF OF GULF POWER COMPANY

Gulf Power Company, ("Gulf Power," "Gulf," or "the Company"), by and through its undersigned attorneys, pursuant to Order No. PSC-09-0723-PHO-EI, files this Post-Hearing Statement of Issues and Positions and Post-Hearing Brief.

BASIC POSITION

As demonstrated through the testimony and exhibits of Gulf Power witnesses Ball and Dodd, Gulf Power's fuel costs are reasonable, prudent and should be approved for recovery. The Florida Industrial Power Users Group ("FIPUG") has taken the position that Gulf Power's proposed fuel cost recovery factors for the period January 2010 through December 2010 should be adjusted downward as a result of energy sales by Gulf Power to the Southern electric system Power Pool (the "Pool") pursuant to the Southern Company Intercompany Interchange Contract ("IIC"). Counsel for FIPUG bases this position solely on his contention that there must be something wrong with these sales if the average price paid to Gulf Power for energy sales to affiliated companies which occur during certain hours over the course of a year is lower than Gulf Power's average fuel cost of generation from all of its generating units over all hours of the year. From both a factual and conceptual standpoint, the premise of FIPUG's concern is simply wrong.

The IIC is a Federal Energy Regulatory Commission-approved contract in the wholesale jurisdiction under which Gulf Power and its affiliated operating companies within the Southern electric system operate as an integrated electric system. [Tr. 455] The IIC is subject to continuing oversight and audit by the FERC. Moreover, Gulf's participation in the IIC has been reviewed and audited from time to time by the FPSC. As a party to the IIC, Gulf Power purchases affordable energy from affiliated companies when needed to meet load and during times when the cost of power purchased from the Pool is lower than the cost of energy that would otherwise have been generated by Gulf's own units if it were operating as a stand-alone utility. [Tr. 455] The IIC also provides a mechanism by which Gulf sells energy through the Pool to affiliated companies and non-affiliated entities at specific times when Gulf has more generation available than is then needed to serve its retail customers, with the benefits from such sales being flowed to Gulf's retail customers. [Id.] Gulf's sales to and purchases from the Pool under the IIC are based on marginal replacement fuel cost and other variable costs associated with the production of that energy. [Tr. 553-554] Accordingly, Gulf's retail customers are properly compensated for these Pool-related transactions. [Tr. 554]

FIPUG has alleged that Gulf Power's customers were harmed because Gulf Power sold energy to affiliated companies at prices below the cost of fuel used to produce the energy. See, PSC Order No. 09-0723-PHO-EI (FIPUG position on Issues 8-10).[1] FIPUG bases this

[1] Gulf Power was made aware of FIPUG's allegations for the first time when FIPUG verbally raised the issue at the October 20, 2009, Prehearing Conference. [Tr. 353] FIPUG did not articulate its position in writing until the following day. FIPUG conducted no discovery whatsoever on the issue. It is also important to note that FIPUG's position as framed in the Prehearing Order is limited solely to energy sales by Gulf Power to the Southern Pool. During the course of the hearing, FIPUG attempted to expand its inquiry to matters such as energy purchases by Gulf from the Pool [Tr. 513-522, 546], purchases and sales of capacity by Gulf from/to the Pool [Tr. 528-536, 544-545] and hedging costs. [Tr. 358, 593-596] As with its contentions regarding energy sales to the Pool, these expanded arguments by FIPUG are conceptually wrong; however, they need not be rebutted because such matters are outside the scope of the issues raised and positions taken by FIPUG in the Prehearing Order. Accordingly, FIPUG's arguments in this regard should not be considered by the Commission in establishing Gulf's fuel cost recovery factors. In a further attempt to muddy the waters, FIPUG also questioned Witness Ball regarding the inclusion of fuel costs for Plant Scherer Unit 3 in Gulf's

contention on its comparison of Gulf's "Fuel Cost of System Net Generation" to Gulf's "Fuel Cost of Other Power Sales" reflected on the "A" and "E" schedules incorporated with the testimony of Witness Dodd. See, 2008-- lines 1 and 17 respectively of page 198, Schedule A-1 to Exhibit RWD-1 [Hearing Exhibit 89]; 2009--lines 1 and 18 respectively of page 5, Schedule E-1B-1 to Exhibit RWD-3 [Hearing Exhibit 94]; 2010—lines 1 and 19 respectively of page 1, Schedule E-1 to Exhibit RWD-3 [Hearing Exhibit 94] and [FIPUG Hearing Exhibit 134]. As explained by Gulf Power witness Ball, this contention is wholly without merit. [Tr. 501, 515]

There are two fundamental flaws in FIPUG's argument. First, it rests on a faulty comparison of an annual average sale revenue rate to an annual average fuel cost of generation for all of Gulf's generating units combined.[2] [Tr. 501] In contrast, energy purchase and sale transactions between Gulf Power and the Pool are settled hourly on the basis of marginal

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retail fuel cost recovery factors. [Tr. 505-513] Gulf Power owns a 25 percent interest in Plant Scherer Unit 3 which is located in Macon, Georgia. [Tr. 503] Energy from Scherer 3 is sold in the form of "unit power sales" to other utilities. [Id.] As noted by Witness Ball, both the fuel cost of generation from Scherer 3 and the fuel revenues associated with the unit power sales from Scherer 3 are reflected in Gulf's fuel filing. [Tr. 507] Any suggestion that this in any way harms Gulf's retail customers is without merit. On the contrary, Gulf's retail customers benefit from the inclusion of Scherer 3 in the fuel clause because generation from Scherer 3 not being sold through unit power sales is available to serve Gulf's retail customers when such generation is the most cost effective alternative.

[2] Even if one were to assume that comparing Gulf's annual average pool sales rate with annual average fuel cost of generation is a valid and appropriate calculation, FIPUG still misses the mark. FIPUG used the wrong line items to identify amounts paid by the Pool to Gulf Power for sales to the Pool. For example, Gulf's actual annual average pool sales rate for 2008 is represented on line 6 "Southern Company Interchange" of page 206, Schedule A-6 to Exhibit RWD-1. [Hearing Exhibit 89] [Tr. 540-541] However, throughout the course of the hearing, FIPUG labored under the mistaken impression that the rate located on line 17 on page 198, Schedule A-1 to Exhibit RWD-1 represented Gulf's 2008 annual average pool sales rate. [Tr. 537, 587-590] As explained by Witnesses Ball and Dodd, FIPUG's use of line 17 of Schedule A-1 to draw its comparison is inappropriate and misleading because line 17 contains other items in addition to sales to the Southern Company Interchange, including costs for "flow through energy," "SEPA," and "wheeled energy." [Tr. 537-538, 587-589] The same problem plagues FIPUG's calculations for years 2009 and 2010.

replacement fuel costs. It is incorrect to infer that annual average rates reported on Gulf Power's various fuel cost schedules are representative of Gulf's marginal replacement fuel cost in any one of the 8,760 hours within a given year. Under the IIC, economic dispatch of system generating resources is based on marginal replacement fuel cost, with the resulting purchases and sales among affiliates likewise being priced at marginal replacement fuel cost and settled every hour in order to assure that there is no cross-subsidy between Gulf and the other Southern affiliates. There is simply no meaningful conclusion to be drawn from FIPUG's "apples and oranges" comparison of annual average costs with hourly marginal costs.

Second, FIPUG's assertion that Gulf Power sells energy to its affiliates below its cost is inconsistent with the procedures for affiliate transactions governed by the IIC. Under the IIC, Gulf sells energy to the Southern electric system Pool on an hourly basis. [Tr. 541] Such sales are made on the basis of system dispatch reflecting the unique marginal replacement fuel costs of system generating resources. [Id.] This methodology ensures that sales to and purchases from the Pool are accomplished at marginal replacement fuel cost. [Id.] Consistent with sound economic principles, this marginal approach sends the proper cost signal for Pool dispatch and assures proper cost recovery for Gulf Power associated with those energy transactions.

FIPUG's position is further refuted by the results of Commission Staff's own recent audit of the IIC. In the first quarter of 2009, the Commission Staff audited the very transactions which form the basis for FIPUG's position in this docket in order to determine whether Gulf's customers were negatively affected by transactions under the IIC. [Tr. 541-543] Importantly, Audit Staff concluded that: (1) the procedures and policies followed by Gulf are in compliance with the IIC, and (2) Gulf's customers are not negatively affected by transactions under the IIC. [Tr. 543]

In summary, through testimony and submission of all Commission-required schedules and exhibits, Gulf Power has presented competent and substantial evidence to support its proposed fuel cost recovery factors. FIPUG has attempted to cast doubt on the propriety of Gulf's request through the use of invalid comparisons and misleading references to inapplicable schedules. Pursuant to the IIC, purchases from and sales to affiliated companies are properly based on marginal replacement fuel cost and other variable cost components associated with the energy being purchased or sold. As correctly recognized by Commissioner Skop during the hearing, purchase decisions under the IIC are made on an hourly basis based upon marginal replacement fuel costs such that the resulting transaction is the most economic choice for Gulf Power's customers. [Tr. 550-554] Gulf Power's customers have recognized substantial benefits as a result of Gulf's participation in the IIC and membership in the Southern electric system. Any attempt by FIPUG to undermine Gulf's participation in the IIC would not only work to the disadvantage of FIPUG's members, but also to the disadvantage of Gulf Power's customer base as a whole. For all of the foregoing reasons, Gulf requests that the Commission reject FIPUG's positions and approve Gulf Power's request for cost recovery.

ISSUE 8: What are the appropriate fuel adjustment true-up amounts for the period January 2008 through December 2008?

POSITION: *Gulf Power has introduced competent and substantial evidence to demonstrate an under recovery of $48,757,977 for the above-referenced period. As discussed in more detail in Gulf's Basic Position, FIPUG's argument to the contrary is premised on the use of flawed comparisons and a fundamental misunderstanding of the Southern Company IIC.*

ISSUE 9: What are the appropriate fuel adjustment true-up amounts for the period January 2009 through December 2009?

GULF: * Gulf Power has introduced competent and substantial evidence to demonstrate an over recovery $36,414,908 for the above-referenced period. As discussed in more detail in Gulf's Basic Position, FIPUG's argument to the contrary is premised on the use of flawed comparisons and a fundamental misunderstanding of the Southern Company IIC.*

ISSUE 10: What are the appropriate total fuel adjustment true-up amounts to be collected/refunded from January 2010 to December 2010?

POSITION: * Gulf Power has introduced competent and substantial evidence to support collection of $12,343,069 for the above-referenced period. As discussed in more detail in Gulf's Basic Position, FIPUG's argument to the contrary is premised on the use of flawed comparisons and a fundamental misunderstanding of the Southern Company IIC. *

ISSUE 12: What are the appropriate projected net fuel and purchased power cost recovery and Generating Performance Incentive amounts to be included in the recovery factor for the period January 2010 through December 2010?

POSITION: * Gulf Power has introduced competent and substantial evidence to support collection of $600,624,266 during the above-referenced period. As discussed in more detail in Gulf's Basic Position, FIPUG's argument to the contrary is premised on the use of flawed comparisons and a fundamental misunderstanding of the Southern Company IIC. *

ISSUE 13: What are the appropriate levelized fuel cost recovery factors for the period January 2010 through December 2010?

POSITION: *5.343 cents/kWh.*

ISSUE 15: What are the appropriate fuel cost recovery factors for each rate class/delivery voltage level class adjusted for line losses?

POSITION: *See table below*

Group	Rate Schedules*	Line Loss Multipliers	Fuel Cost Factors ¢/KWH		
			Standard	Time of Use	
				On-Peak	Off-Peak
A	RS, RSVP,GS, GSD, GSDT, GSTOU, OSIII, SBS(1)	1.00526	5.371	5.873	4.994
B	LP, LPT, SBS(2)	0.98890	5.284	5.777	4.913
C	PX, PXT, RTP, SBS(3)	0.98063	5.239	5.729	4.872
D	OSI/II	1.00529	5.215	N/A	N/A

*The recovery factor applicable to customers taking service under Rate Schedule SBS is determined as follows: (1) customers with a contract demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; (2) customers with a contract demand in the range of 500 to 7,499 KW will use the recovery factor applicable to Rate Schedule LP; and (3) customers with a contract demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

Respectfully submitted this 12th day of November, 2009.

/s/ Steven R. Griffin
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