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May 31, 1990

Ms. Lois D. Cashell, Secretary
Federal Energy Regulatory Commission
825 North Capital Street, N.E.
Washington, D.C. 20426

Re: Filing of a Letter Agreement Constituting an Amendment in the 1982 and 1988 Unit Power Sales Agreements and Service Schedule R of the Interchange Contract between Southern Companies and Florida Power & Light Company

Dear Ms. Cashell:

By means of this letter, Southern Company Services, Inc. ("SCSI"), acting on behalf of Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Savannah Electric and Power Company ("Southern Companies"), is filing with the Commission a letter agreement evidencing Florida Power & Light Company's ("FPL") concurrence to an amendment changing a practice under the 1982 and 1988 Unit Power Sales ("UPS") Agreements and Service Schedule R (UPS Replacement Energy) of the Interchange Contract between Southern Companies and FPL. Southern Companies are proposing to adopt marginal replacement fuel cost for use in dispatching generating units. On this same day, SCSI and the individual Southern Companies are making the appropriate filings to amend rates on file with the Commission, including Amendment No. 1 to The Southern Company System Intercompany Interchange Contract, to allow adoption of marginal replacement fuel cost on a system-wide basis.

<u>Background</u>:

FPL and Southern Companies (with the exception of Savannah Electric and Power which joined the Southern electric system on

March 31, 1988) entered into a UPS Agreement on February 18, 1982, which was approved by the Commission in Docket No. ER82-544-000. The Agreement provides for unit power sales from Southern Companies to FPL through May 31, 1995. The 1982 Agreement also makes provisions for Southern Companies to sell Alternate Energy, Supplemental Energy, and Discretionary Energy. On July 29, 1985, the parties amended the Interchange Contract dated October 18, 1979 between Southern Companies and FPL to include Service Schedule R, which schedule provides for non-firm energy sales from Southern Companies to FPL and allows FPL to purchase such energy in substitution for energy under the 1982 UPS Agreement. Service Schedule R was accepted for filing by the Commission in Docket No. ER85-661-000. FPL and Southern Companies entered into another UPS Agreement on July 20, 1988, which was accepted for filing in Docket No. ER88-596-000. The 1988 Agreement provides for additional sales from Southern Companies (including Savannah Electric and Power) to FPL during the period June 1, 1993 through May 31, 2010. The 1988 Agreement also makes provision for Alternate Energy, Supplemental Energy, Discretionary Energy, and a Long Term Power Option.

Description of and Reason for the Change in Practice:

Currently, the Southern electric system utilizes "blended replacement fuel cost" to determine the order of dispatch of the generating units on the system and to price off-system energy transactions. Blended replacement fuel cost is defined as the weighted average cost of fuel receipts for the previous month (both long-term contract and spot-market receipts) and the projected fuel receipts for the current month. Specific increments of unit generation are identified as sources of supply and the fuel component is priced using the blended replacement fuel cost of each increment of unit generation.

Because spot-market fuel prices are presently lower than long-term prices, units with fewer long-term fuel supply commitments have a distinct advantage in dispatch over units with higher levels of long-term contract fuel supplies. Units with small quantities of long-term fuel supplies can obtain substantial amounts of spot-market fuel thereby resulting in a lower blended fuel cost, which in turn causes the units to be dispatched first and consume more fuel. The increased loading of these units allows procurement of additional spot-market fuel that further reduces their blended replacement fuel cost and starts a spiral effect of decreasing cost and increasing generation. On the Southern electric system, these units with fewer long-term commitments are generally the older, less efficient units that should primarily provide reserve generation.

In contrast, units with higher levels of long-term contracts and, hence, higher costs have decreased opportunities to generate and to improve their order in dispatch by procuring more spot-market fuel. Generally, these units are the newer, more efficient units that should supply more base load energy. Studies conducted by Southern Companies indicate that the continued use of blended replacement fuel cost for dispatch purposes may not result in the most efficient operating and pricing signals being provided for future fuel procurement decisions or the desired burns at the most efficient plants.

To improve efficiency, the Southern electric system proposes to utilize marginal replacement fuel cost to dispatch system generating units. Although units will be dispatched based on marginal replacement fuel cost, off-system energy transactions will continue to be priced based on blended replacement fuel cost. This is necessary because marginal replacement fuel cost at some plants represents only a small percentage of the total cost of the fuel consumed. The use of blended replacement fuel cost for pricing is a proven and reliable methodology for ensuring that all fuel costs are recovered and, therefore, that methodology will be retained in pricing off-system energy transactions.

Using the new procedure, specific unit increments for the aggregate of off-system energy transactions will be identified by a dispatch simulation using marginal replacement fuel cost. Once identified, the specific unit increments will be assigned their blended replacement fuel cost and reordered in ascending order of cost for pricing each off-system energy transaction.

Studies performed by Southern Companies indicate that the adoption of marginal replacement fuel cost for dispatch purposes should produce long-term benefits for territorial and off-system customers. The change to marginal replacement fuel dispatch should result in decreased production cost, thereby providing savings to all customers. It should also provide appropriate fuel procurement signals to minimize the cost of fuel purchases under changing market conditions.

Over time, as unit utilizations change, the fuel cost and variable operation and maintenance ("O&M") expense at each unit may change. The Southern electric system will not revise the O&M expense shown in the 1990 Informational Filings, but future informational filings will reflect any such changes. The proposed methodology may also have an effect on the fuel stock component of working capital, which in turn affects the calculation of capacity charge rates. As more spot-market fuel is procured and the fuel stock changes, the contract capacity charge rates will reflect this change. The adoption of marginal replacement fuel cost for dispatch may also result in a change in unit operations, including the operation of certain units at minimum output levels.

The filing made in connection with The Southern Company System Intercompany Interchange Contract contains a report of the results of the internal studies conducted by Southern Companies. That report, entitled Marginal Fuel Dispatch Final Report, evidences the savings expected to be obtained by the adoption of marginal replacement fuel cost for use in dispatch. The report is being filed with the Commission and is hereby incorporated by reference in this filing.

Request for Waiver of Certain Filing Requirements:

This filing of a change in practice is tendered pursuant to Section 35.13(a)(2)(ii) of the Commission's regulations, which section restricts the information otherwise required to be submitted with such a filing. Nevertheless, certain of the information required under Section 35.13(a)(2) of the regulations has limited application, if any, to the modification in dispatch procedures contemplated by the subject filing. For this reason, SCSI respectfully requests a waiver of those portions of Section 35.13 that are not otherwise specifically satisfied.

Requested Effective Date:

Because recalculating dispatch would be impossible, the marginal replacement fuel cost procedure will not be implemented until it is accepted for use under The Southern Company System Intercompany Interchange Contract and all other wholesale and retail rates of Southern Companies. Moreover, the use of marginal replacement fuel cost for dispatch will not be implemented by Southern Companies if the Federal Energy Regulatory Commission orders that such implementation is allowed to become effective subject to refund. In such event, the new dispatch methodology will not be implemented by Southern Companies until they receive a final order of this Commission allowing implementation without a refund obligation.

Accordingly, Southern Companies request that the enclosed amendment be allowed to become effective on August 1, 1990, without any refund obligation. If the Commission determines to suspend the requested effective date and impose a refund obligation, Southern Companies request, in the alternative, that the enclosed amendment be allowed to become effective on the date this Commission issues a final order allowing the amendment to be implemented without a refund obligation.

Filing Fee:

Pursuant to Section 381.502(b) of the Commission's regulations, no filing fee is assessed for filings which have no effect on the rate the utility charges or which involve rate decreases. Because this filing is expected to result in rate decreases, no filing fee is required.

List of Documents Submitted with this Filing:

The following is a list of the documents submitted with this filing:

(a) Letter Agreement between Florida Power and Light Company and Southern Companies dated April 25, 1990.

(b) A form of notice suitable for publication in the Federal Register, as required by Section 35.8 of the Commission's regulations.

(c) A Certificate of Concurrence issued on behalf of Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Savannah Electric and Power Company.

Miscellaneous:

Authority for the filing of this amendment and the related Certificate of Concurrence on behalf of Alabama Power Company, Georgia Power Company, Gulf Power Company, and Mississippi Power Company is evidenced by letter dated November 19, 1963 addressed to the Federal Power Commission and signed by those companies, together with the letter dated December 27, 1963 from the Secretary of the Federal Power Commission to each of them. The authority for SCSI to file on behalf of Savannah Electric and Power Company was acknowledged by Commission order dated June 16, 1988 in Docket No. ER88-366-000.

Copies of this filing have been mailed to Florida Power & Light Company and Southern Companies.

Should additional information be required, it is requested that Mr. Robert O. Usry, Vice President, Southern Company Services, Inc., Post Office Box 2625, Birmingham, Alabama 35202, or the undersigned be contacted at the earliest possible date so that such information can be supplied expeditiously.

Yours truly,

BALCH & BINGHAM

By Mark A. Crosswhite
Mark A. Crosswhite

Attorneys for Southern Company Services, Inc.

cc

Mr. R.O. Usry
Southern Company Services, Inc.
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Mississippi Power Company
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Mr. J.W. Williams
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Savannah Electric and Power Company
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Savannah, Georgia 31402

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Southern Company Services, Inc.	))	Docket No. ____________

NOTICE OF TARIFF CHANGE

Take notice that on ______________, 1990, Southern Company Services, Inc., acting on behalf of Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Savannah Electric and Power Company ("Southern Companies"), tendered for filing a letter agreement changing a practice in the Unit Power Sales Agreements dated February 18, 1982 (without Savannah Electric and Power Company) and July 20, 1988 (including Savannah Electric and Power Company) and Service Schedule R to the Interchange Agreement dated October 18, 1979, as amended, between Florida Power & Light Company and Southern Companies (including Savannah Electric and Power Company). Southern Companies are proposing to adopt marginal replacement fuel cost for use in dispatch. Marginal replacement fuel cost dispatch will be implemented after it is accepted without refund obligation under all wholesale and retail rates of Southern Companies.

Any person desiring to be heard or to protest such filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 825 North Capitol Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R., §§ 385.211 and 385.214). All such petitions and protests should be filed on or before ______________. Protests will be considered by the Commission to determine the appropriate action to be taken, but will not serve to make protestants parties to the proceedings. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection.

Lois D. Cashell
Secretary

CERTIFICATE OF CONCURRENCE

This is to certify that Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Savannah Electric and Power Company assent to and concur in the filing described below, which Southern Company Services, Inc. has filed, and hereby file this certificate of concurrence in lieu of the filing of the documents specified:

> Letter Agreement changing a practice in the Unit Power Sales Agreement dated February 18, 1982 between Florida Power & Light Company and Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Southern Company Services, Inc.; the Unit Power Sales Agreement dated July 20, 1988 between Florida Power & Light Company and Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, Savannah Electric and Power Company, and Southern Company Services, Inc.; and Service Schedule R to the Interchange Contract dated October 18, 1979, as amended, between Florida Power and Light Company and Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, Savannah Electric and Power Company, and Southern Company Services, Inc.

SOUTHERN COMPANY SERVICES, INC.

R. O. Usry

R.O. Usry
Vice President

As the representative of:

ALABAMA POWER COMPANY
GEORGIA POWER COMPANY
GULF POWER COMPANY
MISSISSIPPI POWER COMPANY
SAVANNAH ELECTRIC AND POWER COMPANY

Dated: May 31, 1990

Southern Company Services, Inc.
800 Shades Creek Parkway
Post Office Box 2625
Birmingham, Alabama 35202
Telephone 205 870-6287

R. O. Usry
Vice President

the southern electric system

April 25, 1990

Mr. J.W. Williams, Jr.
Senior Vice President
Florida Power & Light Company
Post Office Box 029100
Miami, Florida 33102-9100

Re: Adoption of Marginal Replacement Fuel Cost in the 1982 and 1988 Unit Power Sales Agreements between Florida Power & Light Company and Southern Companies

Dear Mr. Williams:

As previously discussed with representatives of Florida Power & Light Company ("FPL"), Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, Savannah Electric and Power Company and Southern Company Services, Inc. (hereinafter "Southern electric system" or "Southern Companies") propose to adopt a new fuel cost methodology for use in dispatching generating units on the Southern electric system. Under the proposed procedure, units will be dispatched based on the "marginal replacement fuel cost." The guidelines for determining the marginal replacement fuel cost for use in dispatch are attached hereto as Attachment 1. This letter agreement is intended to explain and clarify the proposed practice and its effects on the Unit Power Sales ("UPS") Agreements between Southern Companies and FPL.

FPL and Southern Companies have entered into two UPS Agreements. On February 18, 1982, the parties executed a UPS Agreement ("1982 Agreement") that provides for sales from Southern Companies to FPL through May 31, 1995. FPL and Southern Companies entered into another agreement on July 20, 1988 ("1988 Agreement"), whereby FPL will purchase additional unit power from Southern Companies during the period June 1, 1993 through May 31, 2010.

Currently, the Southern electric system utilizes "blended replacement fuel cost" to determine the order of dispatch of the generating units on the system and to price off-system energy transactions. Blended replacement fuel cost is defined as the weighted average cost of fuel receipts for the previous month (both long-term contract and spot-market receipts) and the projected fuel receipts for the current month. For incrementally priced off-system energy transactions (such as Alternate, Supplemental, Discretionary, Replacement, Schedule R and the Long-Term Power Option), specific increments of unit generation are identified as sources of supply, and the fuel component is priced using the blended replacement fuel cost of each increment of unit generation.

Because spot-market fuel prices are presently lower than long-term prices, units with fewer long-term fuel supply commitments have a distinct advantage in dispatch over units with higher levels of long-term contract fuel supplies. Units with small quantities of long-term fuel supplies can obtain substantial amounts of spot-market fuel thereby resulting in a lower blended fuel cost which, in turn, causes the units to be dispatched first and consume more fuel. The increased loading of these units allows procurement of additional spot-market fuel that further reduces their blended replacement fuel cost and starts a spiral effect of decreasing cost and increasing generation. On the Southern electric system, these units with fewer long-term commitments are generally the older, less efficient units that should primarily provide reserve generation.

In contrast, units with higher levels of long-term contracts and, hence, higher costs have decreased opportunities to generate and to improve their order in dispatch by procuring more spot-market fuel. Generally, these units are the newer, more efficient units that should supply more base load energy. Based on studies, Southern Companies believe that the continued use of blended replacement fuel cost may not result in the most efficient operating and pricing signals being provided for future fuel procurement decisions or the desired burns at the most efficient plants.

To resolve any problems associated with dispatching units based on blended replacement fuel cost, the Southern electric system proposes to utilize marginal replacement fuel cost to dispatch system generating units. Although units will be dispatched based on marginal replacement fuel cost, off-system energy transactions will continue to be priced based on blended replacement fuel cost. This is necessary because marginal replacement fuel cost at some plants represents only a small percentage of the total cost of the fuel consumed. Therefore, a different methodology must be used in the pricing process to recover all fuel expenses incurred in operating the unit. The use of blended replacement fuel cost for pricing is a proven and reliable methodology for ensuring that all fuel costs are recovered and, therefore, that methodology will be retained in pricing off-system energy transactions.

Using the proposed procedure, specific unit increments for the aggregate of off-system energy transactions will be identified by a dispatch simulation using marginal replacement fuel cost. Once identified, the specific unit increments will be assigned their blended replacement fuel cost and reordered in ascending order of cost for pricing each off-system energy transaction. The change to this proposed method of dispatch and fuel pricing should result in decreased production cost, thereby providing savings to all customers. It should also provide appropriate fuel procurement signals to minimize the cost of fuel purchases under changing market conditions.

Because the proposed fuel pricing methodology results in the use of a different fuel cost for dispatch and pricing off-system energy transactions, energy rates that include the incremental generating cost of the Southern electric system as a component of the pricing methodology could be affected. These energy rates include the following: Alternate, Supplemental and Discretionary Energy under the 1982 and 1988 Agreements; Replacement Energy under the 1988 Agreement; Schedule R to the Interchange Contract; and the Long Term Power Option provided under Exhibit B of the 1988 Agreement. The proposed procedure will not change the methodology used in determining UPS Base and Normalized Energy Rates.

Over time, as units are dispatched differently, the fuel cost and variable operation and maintenance ("O&M") expense at each unit may change. The Southern electric system will not revise the O&M expense shown in the 1990 Informational Filings, but future informational filings will reflect any such changes. The proposed methodology may also have an effect on the fuel stock component of working capital which, in turn, affects the calculation of capacity charge rates. As more spot-market fuel is procured and the fuel stock changes, the contract capacity charge rates will reflect this change. The adoption of marginal replacement fuel cost for dispatch may also result in a change in unit operations, including the operation of certain units at minimum output levels.

The adoption of the new method of dispatch will necessitate the amendment of a number of rates that Southern Companies have filed with the Federal Energy Regulatory Commission ("FERC"). Because recalculating dispatch would be extremely impractical, if not impossible, the marginal replacement fuel cost procedure will not be implemented until it is accepted for use under The Southern Company System Intercompany Interchange Contract and all other wholesale and retail rates of Southern Companies. In any event, the use of marginal replacement fuel cost for dispatch will not be implemented if the FERC orders that such implementation is subject to refund.

Please indicate your agreement with the terms of this letter agreement by signing below and returning it to the writer. Southern Company Services, Inc., on behalf of the Southern electric system, will file this letter agreement with the FERC as a change in a practice under a rate schedule, and will notify you of the date that the marginal replacement fuel cost procedure will be implemented.

Sincerely,

Robert O. Usry

Robert O. Usry

Accepted by: J.W. Williams Jr.
Date: 5-3-90

Guidelines for Determination of Marginal Replacement Fuel Prices

Independent	The Forecast Team will have the responsibility and authority to establish marginal replacement fuel prices.
Oversight	At least one operating company representative should be present at the price forecast team meetings. The responsibility to attend these meetings will be rotated between operating companies on a monthly basis.
Frequency	Marginal replacement fuel prices will be developed monthly.
Price	The marginal replacement fuel price will be on a delivered $/MMBtu basis, rounded to the nearest cent, that reflects the cost of replacing the desired tonnage.
Tonnage	The desired tonnage used to determine marginal replacement fuel pricing will be twenty percent of the projected monthly burn or the equivalent of a ten percent capacity factor, whichever is greater.
True Cost	Marginal replacement fuel prices will include true variable cost and should not include any sunk cost.
Gas/Oil	Marginal replacement fuel prices will be based on the volume of gas/oil necessary to satisfy 100% of the projected monthly burn. Marginal gas/oil prices may be changed during the month if a significant actual price change occurs.
Timing	Monthly marginal replacement fuel prices for all plants will be developed by the 3rd Friday of each month (15th - 21st).
Exception	The Southern Company Services Price Forecast Team will have the authority to decide on any exceptions as they arise.
Forecast Team	The Manager of Southern Company Services Procurement and Planning will have the responsibility to utilize the resources of his organization and produce the monthly marginal replacement fuel price forecast given the above guidelines.