**FLORIDA PUBLIC SERVICE COMMISSION**

**Capital Circle Office Center 2540 Shumard Oak Boulevard**

**Tallahassee, Florida 32399-0850**

**M E M O R A N D U M**

**DECEMBER 5, 1996**

**TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)**

**FROM: DIVISION OF ELECTRIC & GAS (DRAPER)**

**DIVISION OF LEGAL SERVICES (JOHNSON)**

**RE: DOCKET NO. 960001-EI - GULF POWER COMPANY - FUEL AND PURCHASED POWER COST RECOVERY FACTOR CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR**

**AGENDA: DECEMBER 17, 1996 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE**

**CRITICAL DATES: NONE**

**SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\960001EI.RCM**

**DISCUSSION OF ISSUES**

**ISSUE :** Should the Commission grant Gulf Power Company's petition for a midcourse correction to decrease its capacity cost recovery factors for all classes effective with the first billing cycle in January 1997?

**RECOMMENDATION:** Yes. The Commission should approve the requested midcourse correction to decrease capacity cost recovery factors as shown in Attachment A.

**STAFF ANALYSIS:**

On November 22, 1996, Gulf Power Company (Gulf) filed a petition for approval of a mid-course correction to its currently authorized Purchased Power Capacity Cost Recovery factors (capacity factors). The calculation of Gulf's capacity factors for the period October, 1996 through September, 1997 approved at the August 1996 hearings included an estimated $10,735,529 in payments under the Southern Company Electric System's Intercompany Interchange Contract (IIC). Actual data now available for October 1996 and revised data for November 1996 through September 1997 estimate IIC payments for October 1996 through September 1997 to be $5,383,394, or $5,352,135 less than the estimate included in the current capacity factors.

The projected overrecovery results from a proposed revision in the IIC currently pending before the Federal Energy Regulatory Agency (FERC). The Southern Company filed IIC Amendment No. 6 with FERC on May 10, 1996. The FERC has reviewed and accepted this filing, subject to refund. The FERC will hold a hearing in March 1997 to fully examine IIC Amendment No. 6.

Under the IIC capacity equalization process, each operating company determines its load responsibility and available capacity to serve its load for the month. Any capacity remaining after a company meets its load responsibility and contract sales obligations is considered reserve capacity and is available for purchase by other operating companies which may have inadequate capacity to meet their projected demand and reserve requirements. Thus, an individual operating company may be deficient and purchase additional capacity in a given month, or have excess capacity and sell its surplus to the pool.

The proposed IIC revision mainly changes the way these monthly reserve capacity transactions are priced. In the past, the Southern Company based the price of capacity on the average cost of a fossil fuel plant, because large coal plants produced the majority of the energy. The new pricing is based on the price of Combustion Turbine (CT) units to reflect the recent trend in generation expansion to build CT units. CT units are typically cheaper and faster to build than a coal plant. The result of this proposed change is that operating companies will be able to buy capacity from the pool at a lower cost; however, companies which sell capacity to the pool also sell capacity at a lower price.

Currently, Gulf is a net buyer of capacity. Therefore, the proposed changes to the IIC will lower Gulf's projected capacity payments to the pool for October 1996 through September 1997. Staff notes that, should Gulf be in the position of selling to the pool, the credit Gulf would receive would be smaller than under the old pricing methodology.

There has been no prudence review of Gulf's capacity payments and staff does not necessarily agree or disagree with Gulf's figures at this time. In addition, there has been no review by staff of IIC Amendment No. 6. The Southern Company's IIC system falls under FERC jurisdiction. As noted above, FERC has accepted this filing subject to refund. Gulf has indicated to staff that it believes FERC will accept this filing with no or minor modifications.

Staff has reviewed the factors derived for Gulf's various rate classes and has found them to be calculated using the same methods that have been accepted in the past. Attachment A of this recommendation reflects the capacity factors for each class and compares bills for 1,000 kWh of residential consumption before and after this capacity factor adjustment.

One of the purposes of mid-course corrections as described in Commission Order No. 13694 is to assure a levelized fuel adjustment and avoid rate shock ratepayers experience when factors are adjusted. Although this order only refers to fuel cost, staff believes that the intent of this order applies to all adjustment factors. It is, therefore, in the best interest of the ratepayers to approve the mid-course correction to the capacity factor which results in lower rates for Gulf's ratepayers.

Gulf has requested an effective date beginning with the first billing cycle in January 1997. Although this effective date falls short of the normal 30-day notice requirement, staff believes that such treatment is warranted given the magnitude of the projected overrecovery. Staff believes that Gulf's customers should benefit from the decrease in the capacity factor at the earliest practicable time. Based on the foregoing, staff recommends that the Commission approve Gulf's decreased capacity factors, as shown in Attachment A, effective with the first billing cycle in January 1997.

**ISSUE :** Should this docket be closed?

**RECOMMENDATION:** No. The Fuel and Purchased Power Cost Recovery Clause docket should remain open. If Issue 1 is approved, this tariff should become effective with customer billings on cycle day 1 of January, 1997. If a protest is filed within 21 days of the issuance of the Order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest.

**STAFF ANALYSIS:** The Fuel and Purchased Power Cost Recovery Clause is an on-going docket and should remain open.