ORIGINAL

Florida Power
CORPORATION

JAMES A. McGEE
SENIOR COUNSEL

January 27, 1998

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

Re: Docket No. 980001-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket are an original and ten copies of Florida Power Corporation's Motion for Reconsideration and Request for Oral Argument.

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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/kp
Enclosure
cc: Parties of record

motion request
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor.	Docket No. 980001-EI Submitted for filing: January 28, 1998

FLORIDA POWER CORPORATION'S
MOTION FOR RECONSIDERATION

Florida Power Corporation ("Florida Power"), pursuant to Rule 25-22.060, F.A.C., hereby submits its Motion for Reconsideration of Order No. PSC-98-0073-FOF-EI, issued January 13, 1998 in this docket ("the Order"), regarding the appropriate treatment of transmission revenues and costs associated with Schedule C, economy energy transactions. In support hereof, Florida Power states as follows:

Reconsideration Requested

Florida Power seeks reconsideration of the conclusion contained in the second ordering paragraph on page 11 of the Order, which states in pertinent part:

> [B]ecause broker sales are non-separated sales, any additional transmission revenues shall be credited and separated according to the normal procedure[1] within the fuel adjustment clause of the selling utility.

Florida Power submits that this conclusion and the supporting rational in the body of the Order, which rejects uncontroverted testimony that transmission revenues

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By "normal procedure," the quoted language refers to the current practice of separating production-related costs and revenues between the retail and wholesale jurisdictions on the basis of energy sales. *See*, Order, at page 8.

from economy sales must be jurisdictionally separated using a transmission separation factor, is based on a misapprehension of the relationship between "separated sales" and "separation factors," a mistaken belief that only retail ratepayers support the investment used in making non-separated economy sales, and an oversight of the inter-jurisdictional conflict it created, in contravention of the Commission's stated objective that neither stockholders or ratepayers be harmed by the implementation of FERC Order 888. When the issues affected by these mistakes, misapprehensions and oversights are properly considered, it becomes evident that transmission revenues must be jurisdictionalized using separation factors that recognize transmission (not production) cost responsibility.

Discussion

Florida Power fully supports the Commission's underlying objective "that the gains from broker sales should be, to the extent possible, the same before and after FERC Order 888." Order, at page 11 (emphasis added). Indeed, Florida Power's position at the hearing on this matter was that the jurisdictional portion of the revenues from unbundled economy sales, including transmission revenues, should continue to be credited to the fuel clause as before.[2]

Florida Power did, however, urge the Commission to recognize one relatively minor, but necessary, difference in cost recovery that resulted from Order 888: Before Order 888, 100% of economy sales revenues were based on the seller's production cos s and were therefore jurisdictionalized using a

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[2] Florida Power advocated the objective subsequently adopted by the Commission of minimizing the effect of Order 888 on the gain from economy sales by arguing that "[s]ince the 'unbundling' of transmission costs into a separate charge is actually only a reclassification of the previous charges, with no new revenues resulting, there is no apparent reason to reduce the benefit of economy sales to the ratepayers because of this cosmetic change." Florida Power's Post-Hearing Statement, at page 5.

production-related (*i.e.*, energy) separation factor; after Order 888, with its requirement that a portion of economy revenues be based on the seller's transmission costs, it followed logically that these transmission revenues had to be jurisdictionalized using a transmission-related separation factor. Even with this FERC-imposed refinement, however, the principle that all jurisdictional economy sales revenues should be credited to the retail fuel clause will continue to be followed, just as it was before Order 888.

After summarizing Florida Power's position on the proper separation of transmission revenues, the Order went on to reject that position, giving the following rational:

> We do not agree with FPC. The transmission-related separations factor FPC was referring to was the result of the separations, or cost of service, study applied in the establishment of base rates. This separation factor allocates a portion of transmission costs to separated wholesale sales. As noted above, economy sales are non-separated sales. In a sense, FPC is asking that these non-separated sales be treated as separated sales. We see no compelling reason for applying a base rate separations factor to non-separated sales. Previously, we have clearly stated that revenues from non-separated sales should be credited to retail customers to compensate them for supporting the investment used in making these sales.

Order, at page 8. For the reasons discussed below, this rational is predicated on mistake, misapprehension and oversight, and thus fails to support the conclusion that transmission revenues should be separated on an energy basis.

First, the rational misapprehends the relationship between "separated sales" and "separation factors" by assuming that the proper use of a transmission *separation* factor is to jurisdictionalize *separated* wholesale sales, and since economy sales are clearly non-separated sales, the use of a transmission separation factor to jurisdictionalize transmission revenues from these non-separated sales is

inappropriate.[3] This assumption is clearly mistaken. The need to separate, or jurisdictionalize, the costs and revenues of sales (whether separated or non-separated) exists whenever a sale uses assets jointly supported by the retail and wholesale jurisdictions. And since the production and transmission assets utilized in making these sales are supported by the two jurisdictions in different proportions, different separation factors must be used in order to fairly compensate the customers in each jurisdiction for their particular level of support.[4]

Second, the rational for rejecting the use of a transmission separation factor is based on the clearly mistaken premise that only retail customers support the investment used in making non-separated sales.[5] The base rates of Florida Power's firm wholesale customers, just like its retail customers, support the production and transmission assets utilized in making non-separated sales in direct

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This misapprehension that separation factors are only intended to be used with separated sales is compounded by the suggestion that, since transmission separation factors are used to jurisdictionalize separated sales in setting base rates, these "base rate separation factors" (Order, at page 8) should not be applied to non-separated sales for fuel adjustment purposes. Of course, the fallacy of this notion can be seen by simply looking to the energy separation factor that has long been applied in the fuel clause to non-separated economy sales. This is the same separation factor used to jurisdictionalize a variety of energy-related costs, such as non-fuel variable O&M, in setting base rates. The point that the Order's rational misses is that a separation factor that reasonably allocates production or transmission costs in relation to the cause of their incurance can be properly applied to wholesale sales, whether they be separated or non-separated, in a rate case or a fuel adjustment proceeding.

In Florida Power's case, retail customers are allocated 95% of revenues by an energy separation factor and 75% of revenues by a transmission separation factor. If these percentages were reversed, the use of an energy separation factor for transmission revenues would provide retail customers only 75% of the benefit produced by an asset for which they support 95% of the costs. There can be little doubt that the Commission would quickly remedy such an inequity.

See also, Order, at page 6, quoting Order No. PSC-97-0262-FOF-EI ("the retail ratepayer supports all of the investment that is used to make the [non-separated] sale"); and Order at page 7 ("fixed transmission expenses are included in retail base rates and fully supported by retail customers for non-separated sales").

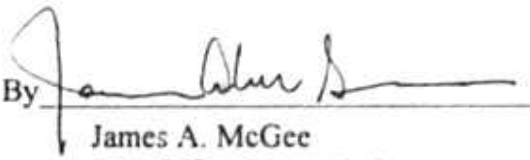
proportion to their use of those assets. Indeed, that is precisely the purpose of the separation studies that are used to determine a utility's cost of service in both retail and wholesale base rate proceedings. Since these firm wholesale customers support approximately 25% of Florida Power's investment in transmission assets, (to paraphrase the Commission's Order) "revenues from non-separated sales should be credited to [wholesale] customers to compensate them for supporting the investment used in making these sales." Order, at page 8.

Third, the Order's rational overlooks the effect on Florida Power of FERC Order 888's requirement to reclassify a portion of its economy sales revenues as transmission revenue. By rejecting the use of a transmission separation factor for these same transmission revenues, the Commission's Order has placed Florida Power in the middle of an inter-jurisdictional conflict, contrary to its own stated objective: "We find that to the extent possible, stockholders and ratepayers should not be harmed by the FERC Order." Order, at page 6. Because of Order 888, Florida Power must credit its wholesale business with a share of transmission revenues from economy sales equal to the share of transmission cost responsibility supported by its wholesale business, *i.e.*, 25%. If Florida Power must also credit 95% of the same transmission revenues to its retail fuel clause because of the retail class's unrelated energy cost responsibility, it will obviously be forced to credit more revenues than it receives. Tr. 87. As a result, Florida Power will be seriously and permanently harmed by consequences of FERC Order 888 that the Commission's Order, through mistake, oversight or inadvertence, has failed to consider. Given the Order's assurance that such a result would be avoided to the extent possible, reconsideration of the use of a transmission separation factor for jurisdictionalizing transmission revenues is both appropriate and necessary.

WHEREFORE, Florida Power Corporation respectfully requests that the Commission reconsider Order No. PSC-98-0073-FOF-EI and revise its decision set forth therein to provide for the jurisdictional separation of transmission revenues from economy sales to be credited the fuel clause using transmission-related separation factors.

Respectfully submitted,

OFFICE OF THE GENERAL COUNSEL
FLORIDA POWER CORPORATION

By 

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause and generating performance incentive factor.	Docket No. 980001-EI Submitted for filing: January 28, 1998

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of Florida Power Corporation's Motion for Reconsideration and Request for Oral Argument has been furnished to the following individuals by regular U.S. Mail this 27th day of January, 1998:

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