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ORIGINAL



March 30, 1998

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

Re: Docket No. 980269-PU

Enclosed are an original and fifteen copies of the Gulf Power Company's
Comments in Response to Staff's Workshop on March 17, 1998.

Sincerely,

Susan D. Cranmer
Assistant Secretary and Assistant Treasurer

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Consideration of change in frequency)
 and timing of hearings for fuel and purchased)
 power cost recovery clause, capacity cost)
 recovery clause, generating performance) Docket No.: 980269-PU
 incentive factor, energy conservation cost) Filed: March 31, 1998
 recovery clause, purchased gas adjustment)
 (PGA) true-up, and environmental cost)
 recovery clause.)
 _____)

POST WORKSHOP COMMENTS

GULF POWER COMPANY ("Gulf Power", "Gulf", or "the Company"), by and through its undersigned counsel, and as requested at the conclusion of the workshop held in this docket on March 17, 1998, hereby submits the following post workshop comments:

Introduction

Gulf Power supports the change to an annual cost recovery period on a calendar-year basis for the fuel, capacity, environmental and conservation cost recovery dockets. There are several advantages to making this change for Gulf's customers, the Company itself, and for the Commissioners and Commission staff. First, reducing the number of scheduled hearings each year from two down to one saves time, effort and administrative costs for both the Company and the Commission staff. In addition, changing the cost recovery period to a calendar year synchronizes the cost recovery period with the fiscal period that is the basis for the accounting books and records of the Company. This will greatly enhance the ability of auditors, Commission staff, the Company and other parties to perform comparisons and analyses of cost recovery revenues and expenses. Customers would also benefit from a change to annual, calendar-year factors. First, businesses plan and account for their expenses based on their fiscal

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year, which for most companies is a calendar year. Making the proposed change would facilitate budgeting and planning for our customers. Rather than having two or three different cost recovery factors in effect during one year, the customer would know the factors used in determining its utility costs for an entire calendar year. Not only does the customer benefit from a reduction in the frequency of changes to the cost recovery factors, but calculation on an annual basis often also reduces the magnitude of changes in cost recovery factors (as demonstrated by annual capacity factors). The reduction of frequency and magnitude of changes in cost recovery factors that flows from the proposed change to an annual calendar year process provides stability and certainty for our customers in a reasonable manner.

Gulf sees no risks or disadvantages associated with making the change to annual, calendar-year factors. Mechanisms (such as the midcourse correction process) are in place to ensure that unforeseen circumstances are addressed between cost recovery hearings. This protects the customers, the Commission staff, and the Company.

Responses to Staff's Discussion Questions:

1. **Based upon historical data over the past 10 years, what impact would a Commission decision have upon the size of the utility's over/under recovery?**

Based on our research of historical data, Gulf concluded that there would have been no significant changes in the size of the over/under recovery balances in any of the four cost recovery clauses if calendar year factors had been in effect during the past 10 years.

2. **If the Commission adopts an annual hearing for the fuel clause and the environmental clause, should the Commission revise its 10 percent threshold as a basis to request a midcourse correction?**

No. The current midcourse correction rules are appropriate for annual hearings, as demonstrated in the clauses that are already on an annual basis (e.g. the conservation, purchased capacity and environmental cost recovery clauses for Gulf Power).

3. **During the past 10 years, how frequently would the utility have requested approval for a midcourse correction based upon a 10 percent threshold?**

Based on historical data for the past 10 years, there would have been no change in the number or frequency of requests for midcourse corrections if annual, calendar-year factors had been in place. Specifically, in the fuel clause, the largest of the clauses in terms of actual cost recovery, no midcourse correction for Gulf Power would have been required.

4. **It has been suggested that a utility could submit interim petitions between hearings for special or unanticipated issues. What threshold level of costs would cause a change in the fuel factor?**

In the fuel clause, a midcourse correction (based on the 10% threshold) would be required if the special or unanticipated issue resulted in an over/under recovery of approximately \$18,000,000.

5. **It has also been suggested than an annual fuel factor would provide a utility's customers with a greater level of certainty about fuel costs. Over the past 12 months, how many customers have expressed this concern?**

Based on customer interaction and feedback, Gulf's marketing representatives have concluded that the majority of industrial customers would prefer annual factors to reduce the number of changes in the factors and to facilitate their own budget processes. Additionally, our customer service representatives indicate that customers from all classes prefer simplicity when analyzing their bills. Having only one set of factors applicable to an entire calendar year is consistent with this customer preference.

6. **If the Commission adopts an annual hearing for the fuel clause and environmental clause, would the utility change any of its forecasting models, methodologies, assumptions, or data sources?**

Gulf anticipates no such changes at this time.

7. **Which form modifications would be necessary to accommodate the change to an annual hearing?**

The only permanent modifications necessary would be to reflect the appropriate twelve calendar months approved for recovery. During the transition period, modifications would be required to the true-up schedules to reflect the appropriate period.

8. **What are the expected advantages and savings of conducting the cost recovery hearings on an annual basis?**

Only one hearing would be required each year, rather than two. This saves time both for the Commission and its staff and for the Company as well. In addition, administrative costs of preparing for, conducting and attending one of the two scheduled hearings under the current process, including legal fees, would be eliminated.

9. **What are the expected disadvantages and costs of conducting cost recovery hearings on an annual basis?**

None.

10. **When should the Commission implement the change to annual hearings?**

The initial annual hearing for the fuel, capacity and environmental factors should be held in November 1998 for the January 1999 - December 1999 projection period. The initial annual hearing for conservation should occur in November 1999 for the January 2000 - December 2000 projection period. Attachment A to these comments sets forth a transition schedule for each specific clause.

11. What are the expected advantages of calculating the cost recovery factors based upon a calendar year basis?

Gulf's fiscal year coincides with the calendar year; therefore, expenses are forecasted on a calendar year basis. Having the cost recovery period coincide with the forecast period would simplify preparation of the filings because only one forecast period would be involved, rather than two. Also, analyzing projected vs. actual data would be simplified. For example, under the current scheme, in order to analyze calendar year data for fuel someone must extract information from three different cost recovery periods. By comparison, under the proposal for an annual calendar year recovery clause, information would only need to be extracted from one cost recovery period in order to analyze calendar year data for fuel.

In addition, most businesses operate on a calendar year basis for their budgeting and accounting periods. Currently, there are three different fuel factors in effect for each customer during a calendar year.¹ Having only one fuel factor (and other cost recovery factors) in effect would assist our customers in their budget planning. This is particularly true for large industrial customers for whom the utility bill is a significant part of their manufacturing costs.

Finally, calendar year filings would be easier to audit. The Company's books and financial records are maintained on a calendar year basis. Auditors would find it easier to tie items from the cost recovery filings to the Company's accounting records when both are reported on a calendar basis.

12. What are the expected disadvantages of calculating the cost recovery factors based upon a calendar year basis?

None.

¹In addition to the three different sets of fuel cost recovery factors in each calendar year, the current process calls for two different sets of conservation cost recovery factors, two different sets of environmental cost recovery factors and two different sets of capacity cost recovery factors in each calendar year.

13. **What are the expected advantages of calculating the cost recovery factors based upon a non-calendar year basis?**

None.

14. **What are the expected disadvantages of calculating the cost recovery factors based upon a non-calendar year basis?**

See the answer to question 11 above.

Preliminary Statement of Issues and Positions:²

ISSUE 1: Should the Commission approve a change in the frequency of the fuel and purchased power cost recovery hearings from a semiannual to an annual basis?

GULF: Yes, the Commission should allow Gulf Power and other similarly situated utilities to handle fuel cost recovery on an annual basis. Gulf Power already handles conservation cost recovery, purchased capacity cost recovery and environmental compliance cost recovery on an annual basis. Based on Gulf Power's experience with converting those clauses from semi-annual to annual, the benefits achieved warrant such a change for the fuel cost recovery clause.

²The basic issue to be considered in this docket is the frequency and timing of the hearings in the cost recovery clauses. FIPUG has set out several additional "issues" which it seeks to inject into this proceeding. None of FIPUG's "issues" address or relate to the basic issue for which this docket was created and are therefore beyond the scope of this proceeding. To ensure that the Commission has the information necessary to make an informed decision, the resources of the Commission, its staff and the affected utilities are better utilized to address the narrow topic identified for this docket which is the frequency and timing of the recovery clauses. In the event FIPUG's "issues" are made a part of this docket, Gulf reserves the right to address them. At this time, however, Gulf has directed its efforts at the issues raised by the Commission staff.

ISSUE 2: Should the Commission approve a change in the frequency of the environmental cost recovery hearings for Tampa Electric Company from a semiannual to an annual basis?

GULE: No position.

ISSUE 3: Should the Commission approve a change to calculate the factor for the fuel and purchased power cost recovery clause on a calendar year basis?

GULE: Yes. In addition to (and as part of) the change to annual hearings, Gulf Power favors the application of 12 month cost recovery factors established on a calendar year basis in all ongoing cost recovery dockets involving electric utilities (980001-EU, 980002-EG, and 980007-EI). Holding annual hearings on a calendar year cycle in all such dockets is administratively more efficient and allows affected customers a better opportunity to incorporate accurate annual energy costs into their budget plans, and, in general, is more consistent with Gulf Power's internal budgeting process.

After such a change is fully implemented, the Commission should hold hearings in mid to late November each year to establish cost recovery factors to be effective for the coming calendar year. The prehearing conference for such a hearing should be held at the beginning of November. Based on these dates for the prehearing and hearing, the utilities should make their projection filings (including estimated true-up) in early October. Final true-up filings for the previous calendar year recovery period could be filed as early as March 31. This would allow the Commission's audit staff the opportunity to efficiently schedule their field work associated with the Commission's audit of the various cost recovery clauses.

If the Commission decides to make the suggested change to annual calendar year fuel cost recovery factors effective January 1, 1999, Gulf would propose to make a transitional filing in June 1998 to include projection data for the period October through December 1998. At the time of this transitional filing, Gulf Power would indicate to the Commission whether revised cost recovery factors for this short transitional period are necessary in lieu of allowing Gulf Power's 6-month fuel cost recovery factors approved in the February 1998 hearings (and Gulf Power's 12-month capacity cost recovery factors approved in the August 1997

hearings) to remain effective for three additional months to cover the period through December 1998.

ISSUE 4: Should the Commission approve a change to calculate the factor for the environmental cost recovery clause on a calendar year basis?

GULF: Yes. Please refer to Gulf Power's position on Issue 3 above. If the Commission decides to make the suggested change to annual calendar year environmental cost recovery factors effective January 1, 1999, Gulf would propose to make a transitional filing in June 1998 to include projection data for the period October through December 1998. At the time of this transitional filing, Gulf Power would indicate to the Commission whether revised cost recovery factors for this short transitional period are necessary in lieu of allowing Gulf Power's 12-month environmental cost recovery factors approved in the August 1997 hearings to remain effective for three additional months to cover the period through December 1998.

ISSUE 5: Should the Commission approve a change to calculate the factor for the energy conservation cost recovery clause on a calendar year basis?

GULF: Yes, if the Commission approves the change of the other cost recovery clauses to annual factors established on a calendar year basis. Please see Gulf Power's position on Issue 3 above. If the Commission decides to make the suggested change to annual calendar year factors in the fuel and purchased power cost recovery and environmental cost recovery clauses effective January 1, 1999, Gulf Power would propose that the conservation cost recovery clause (Docket No. 980002-EG) make the transition to a calendar year basis by January 1, 2000. This would allow time for the necessary rule changes required for this particular cost recovery clause and would allow further examination of the question to smooth the transition from the 12-month conservation cost recovery factors effective April through March to 12-month factors effective January through December.

ISSUE 6: Should the Commission approve a change to calculate the factor for the purchased gas adjustment (PGA) true-up on a calendar year basis?

GULE: No position.

ISSUE 7: Should this docket be closed?

GULE: Yes. If no person whose substantial interests are affected by the Commission's proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed.

Respectfully submitted this 30th day of March, 1998.



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GULF POWER COMPANY

Fuel Transition

Hearing Dates:	Factor Effective Dates:	Filing Description:		Filing Dates:
Feb 1998 (Current Period)	Apr 1998 - Sept 1998	Projection Estimated True-Up Final True-Up	Apr 1998 - Sept 1998 Oct 1997 - Mar 1998 Apr 1997 - Sept 1997	Jan. 1998 Jan. 1998 Nov. 1997
Aug 1998	Oct 1998 - Dec 1998	Projection Estimated True-Up Final True-Up	Oct 1998 - Dec 1998 Apr 1998 - Sept 1998 Oct 1997 - Mar 1998	June 1998 June 1998 May 1998
Nov 1998	Jan 1999 - Dec 1999	Projection Estimated True-Up Final True-Up	Jan 1999 - Dec 1999 Apr 1998 - Dec 1998 (2 periods) None	Oct 1998 Oct 1998
Nov 1999	Jan 2000 - Dec 2000	Projection Estimated True-Up Final True-Up	Jan 2000 - Dec 2000 Jan 1999 - Dec 1999 Apr 1998 - Dec 1998 (2 periods)	Oct 1999 Oct 1999 Anytime after Mar 1999
Nov 2000	Jan 2001 - Dec 2001	Projection Estimated True-Up Final True-Up	Jan 2001 - Dec 2001 Jan 2000 - Dec 2000 Jan 1999 - Dec 1999	Oct 2000 Oct 2000 Anytime after Mar 2000

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Capacity Transition

Hearing Dates:	Factor Effective Dates:	Filing Description:		Filing Dates:
Aug 1997 (Current Period)	Oct 1997 - Sept 1998	Projection Estimated True-Up Final True-Up	Oct 1997 - Sept 1998 Oct 1996 - Sept 1997 Oct 1995 - Sept 1996	June 1997 June 1997 May 1997
Aug 1998	Oct 1998 - Dec 1998	Projection Estimated True-Up Final True-Up	Oct 1998 - Dec 1998 Oct 1997 - Sept 1998 Oct 1996 - Sept 1997	June 1998 June 1998 May 1998
Nov 1998	Jan 1999 - Dec 1999	Projection Estimated True-Up Final True-Up	Jan 1999 - Dec 1999 Oct 1997 - Dec 1998 (2 periods) None	Oct 1998 Oct 1998
Nov 1999	Jan 2000 - Dec 2000	Projection Estimated True-Up Final True-Up	Jan 2000 - Dec 2000 Jan 1999 - Dec 1999 Oct 1997 - Dec 1998 (2 periods)	Oct 1999 Oct 1999 Anytime after Mar 1999
Nov 2000	Jan 2001 - Dec 2001	Projection Estimated True-Up Final True-Up	Jan 2001 - Dec 2001 Jan 2000 - Dec 2000 Jan 1999 - Dec 1999	Oct 2000 Oct 2000 Anytime after Mar 2000

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Environmental Transition

Hearing Dates:	Factor Effective Dates:	Filing Description:		Filing Dates:
Aug 1997 (Current Period)	Oct 1997 - Sept 1998	Projection Estimated True-Up Final True-Up	Oct 1997 - Sept 1998 Oct 1996 - Sept 1997 Apr 1996 - Sept 1996	June 1997 June 1997 Mar 1997
Aug 1998	Oct 1998 - Dec 1998	Projection Estimated True-Up Final True-Up	Oct 1998 - Dec 1998 Oct 1997 - Sept 1998 Oct 1996 - Sept 1997	June 1998 June 1998 Dec 1997
Nov 1998	Jan 1999 - Dec 1999	Projection Estimated True-Up Final True-Up	Jan 1999 - Dec 1999 Oct 1997 - Dec 1998 (2 periods) None	Oct 1998 Oct 1998
Nov 1999	Jan 2000 - Dec 2000	Projection Estimated True-Up Final True-Up	Jan 2000 - Dec 2000 Jan 1999 - Dec 1999 Oct 1997 - Dec 1998 (2 periods)	Oct 1999 Oct 1999 Anytime after Mar 1999
Nov 2000	Jan 2001 - Dec 2001	Projection Estimated True-Up Final True-Up	Jan 2001 - Dec 2001 Jan 2000 - Dec 2000 Jan 1999 - Dec 1999	Oct 2000 Oct 2000 Anytime after Mar 2000

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Conservation Transition

Hearing Dates:	Factor Effective Dates:	Filing Description:		Filing Dates:
Feb 98 (Current Period)	Apr 1998 - Mar 1999	Projection	Apr 1998 - Mar 1999	Jan 1998
		Estimated True-Up	Oct 1997 - Mar 1998	Jan 1998
		Final True-Up	Oct 1996 - Sep 1997	Nov 1997
Feb 99	Apr 1999 - Dec 1999	Projection	Apr 1999 - Dec 1999	Jan 1999
		Estimated True-Up	Apr 1998 - Mar 1999	Jan 1999
		Final True-Up	Oct 1997 - Mar 1998	Nov 1998
Nov 1999	Jan 2000 - Dec 2000	Projection	Jan 2000 - Dec 2000	Oct 1999
		Estimated True-Up	Apr 1999 - Dec 1999	Oct 1999
		Final True-Up	Apr 1998 - Mar 1999	Anytime after Mar 1999
Nov 2000	Jan 2001 - Dec 2001	Projection	Jan 2001 - Dec 2001	Oct 2000
		Estimated True-Up	Jan 2000 - Dec 2000	Oct 2000
		Final True-Up	Apr 1999 - Dec 1999	Anytime after Mar 2000

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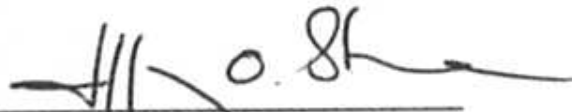
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