ORIGINAL

STATE OF FLORIDA

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September 19, 1997

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

RE: Docket No. 970001-EI

Dear Ms. Bayó:

Enclosed are an original and fifteen copies of the Post Hearing Brief of the Citizens of the State of Florida in the above-referenced docket.

Also enclosed is a 3.5 inch diskette containing the Post Hearing Brief of the Citizens of the State of Florida in WordPerfect for Windows 6.1. Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

Sincerely,

Stephen C. Burgess
Deputy Public Counsel

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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. 970001-EI Filed: September 19, 1997

POST HEARING BRIEF
OF THE CITIZENS OF THE STATE OF FLORIDA

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ISSUES, POSITIONS, AND DISCUSSIONS

ISSUE 9

How should the transmission costs be accounted for when determining the transaction price of an economy, Schedule C, broker transaction between two directly interconnected utilities?

ISSUE 11:

How should the transmission costs be accounted for when determining the transaction price of an economy, Schedule C, broker transaction that requires wheeling between two non-directly interconnected utilities?

OPC POSITION

The relevant purpose of FERC Order 888 is to level the economic playing field so that a transmission owner has no undue competitive advantage in favor of its own power sales. The main purpose of the broker transactions is to assure that the least expensive fuel available is burned at any given time. Unfortunately, none of the alternatives advanced by the parties attain both goals in all circumstances. The Citizens recommend the Commission or its staff continue to examine the issue. In the meantime, however, the Citizens believe the best alternative is that submitted by FP&L: (1) the transmission charge (whether wheeling or "self-wheeling") should be billed separately to the buyer; (2) the wheeling charge should be subtracted from the buyers decremental fuel cost; and (3) that remainder should be averaged with the seller's incremental fuel costs to calculate the transaction price for an economy, schedule C, broker transaction.

DISCUSSION

Issue 9 and issue 11 involve highly interrelated factors that are difficult to separate. As a result, the Citizens have found it more cohesive to discuss both issues together.

Testimony about these issues seems center on two similar goals. The relevant goal of FERC Order 888 is to assure a fair opportunity for non-transmission owners to compete for power sales with transmission owners. A fundamental goal of the establishment of the broker is to assure that the least expensive fuel available is burned at any given time. To the greatest extent possible, the commission, in arriving at a decision on issues 9 & 11, should accommodate both of these laudable goals.

Out of the four specific methods offered by the respective utilities, there appear to be two basic models for treating the unbundled self-transmission costs in determining the transaction price of an economy, schedule C, broker transaction. TECO espouses a model that would consider the cost of self-transmission to be subsumed within the split-savings calculation. The other three utilities each recommend a model that, in one fashion or another, adds to its incremental fuel cost a specific amount to reflect the unbundled self-transmission cost.

The commission should reject TECO's model because it appears to violate the fundamental purpose of FERC Order 888. All parties, including TECO, seemed in general agreement that a major purpose of Order 888 is to assure that a transmission owner cannot gain a competitive advantage by charging a wheeling rate to other potential sellers, but ignoring those same transmission costs for its own sales. FP&L witness Villar described the purpose as follows.

> "I think Order 888 had a number of goals and objectives . . . one of which was to make sure that, one, the utility did not have a competitive advantage

by virtue of ignoring transmission costs on its own system."

[T-124]

TECO witness Kordecki agrees with this concept, using a slightly different description:

"In order to facilitate the development of a competitive wholesale market, the FERC is requiring transmission owners to open up their transmission systems to potential users on a non-discriminatory, comparable basis which requires the owner to treat the use of its own transmission system for sales transactions as if the utility were purchasing transmission from a third party. The concept is to provide a level playing field so that generation competes directly against generation, thereby denying a transmission owner the ability to discriminate in favor of its own power sales."

[T-222]

TECO's method does not attain the FERC goal of a level playing field articulated by Mr. Kordecki. Since a non-contiguous potential seller must add the wheeling charge to the cost of its power, the only means whereby a level playing field can be attained is by adding the transmission cost as a separate component in calculating the cost of power offered by the transmission owner. TECO's method of considering the transmission cost as subsumed within the split savings does not meet that criterion. In order for "generation [to] compete directly against generation," one $20 fuel must appear as attractive as any other $20 fuel. Under TECO's approach, however, its own $20 fuel would be economically more attractive than $18 fuel that needed wheeling to the same buyer.

This simple hypothetical was presented to Mr. Kordecki [T-250]:

(1) Decremental avoided cost of Buyer, B, is $30;

(2) Incremental cost of production for TECO is $20 and TECO's wheeling cost is $3;

(3) Utility C is adjacent to TECO but non-adjacent to B, and therefore must wheel electricity through TECO to get to B.

(4) Utility C's incremental fuel cost is $18.

Under TECO's approach to economy pricing, the transaction price from TECO to utility B would be $25, while the price for utility C to utility B would be $25.50. Accordingly, TECO's fuel would be burned, rather than utility C's. In other words, $20 fuel would be burned rather than $18. This result violates the purpose of the broker to burn the least expensive fuel. It further ignores the stated purpose of FERC Order 888 to level the playing field with the non-adjacent utility. (See T-250)

It is axiomatic that the playing field is not level under any method that adds a specific cost to one source, but not to another. Thus, as long as wheeling fees are being charged, a separate transmission fee must be added when a utility transmits its own energy to an economy purchaser.

Because TECO's method does not add this separate charge, it should be rejected. Instead, the Commission should adopt some form of the model that adds a separate charge for self-transmission because it meets the goal of FERC Order 888.

It should be noted, however, that while a separate self-transmission charge is needed to comport with the purpose of Order 888, unfortunately it also assures that there will be instances in which the purpose of the Florida broker is thwarted. A simple example illustrates this point. Suppose:

(1) Decremental fuel cost of potential buyer, B, is $30;

(2) Incremental fuel cost of adjacent utility, A, is $28;

(3) unbundled cost for A to transmit its own power to B is $3.

Obviously the cheaper fuel is that which A is about to burn. The broker was designed to assure that the less costly fuel would be burned. Under the respective methods suggested by FPC, FP&L and Gulf, however, this transaction would not take place. Rather, the $3 transmission cost would be added (either before or after the averaging), rendering the sale uneconomical. The separate add-on thereby violates the broker philosophy of assuring that the least costly available fuel is burned at all times.

The undesirable result is that Florida ratepayers, in the aggregate, will pay higher fuel costs than if the broker philosophy were fully attained. This pricing inefficiency (from a statewide perspective) arises because an incremental component is added in the pricing mechanism when there is actually no additional cost on a statewide basis. The transmission of electricity for an economy sale does not add any cost to statewide system. To add a separate charge for it, then, will cause problems in a pricing system that is established for efficiency on a statewide basis.

The genesis of this illogical result is in the goals articulated in FERC Order 888. In order to create a level playing field, self-transmission must be charged the same as wheeling another utility's power. Because wheeling is an incremental charge for broker sales, self-transmission must be an incremental charge to equate the two.

It is worth noting, however, there is a way to equate the self-transmission and wheeling charges without causing the previously described problems for the broker system. Instead of adding a self-transmission charge to equal the wheeling charge, a pricing system could remove the wheeling charge, as well as the self-transmission charge. This approach would level the playing field, and also avoid the problem of ever preventing broker sales from the least expensive fuel.

Naturally, this approach has the drawback that the customers of the wheeling company are not reimbursed for the usage of their transmission lines. Even this concern, however, has the counterpoint that no additional costs are actually incurred by the wheeling company. The transmission system is already in place and paid for by the wheeler's retail customers. The transmission charges merely shift a portion of the capital costs from the wheeling utility customers to the purchasing utility's customers. If no wheeling takes place, the company does not save any expenses; if the wheeling does take place, the utility bears no incremental expense.

It appears to the Citizens that removal of both self-transmission charges and wheeling charges is the treatment that fully attains the goals of Order 888 and the Florida broker. The Citizens do not recommend that approach because it appears beyond the Commission's jurisdiction and because it is such a radical concept. The Citizens do, however, recommend the Commission to continue to examine this question and strive to resolve all inconsistencies raised in this issue.

In the meantime, the most effective approach to pricing is that which will encourage the greatest number of cost efficient transactions through the broker. Late-filed exhibit 13 shows that of the methods that separately charge an increment for self-transmission, the method proposed by FP&L would result in a transaction price that will suppress the least number of cost-efficient transactions through the broker.

In order to achieve the maximum benefit, the Citizens recommend that both wheeling and self transmission charges generate a separate billing to the purchasing utility, and be subtracted from the buyer's decremental fuel cost to be averaged with the seller's incremental fuel cost to calculate the transaction price.

ISSUE 10

If the cost of transmission is used to determine the transaction price of an economy, Schedule C, broker transaction between two directly interconnected utilities, how should the costs of this transmission be recovered?

OPC POSITION

It should be treated as part of the fuel cost to the purchasing utility and as part of the fuel revenue to the selling utility (to be passed through the fuel adjustment clause).

DISCUSSION

At the outset it should be stressed that whatever treatment is proper should be applied to all utilities under commission jurisdiction. No witness or party offered justification for disparate treatment among the utilities. Currently, however, there appears to be some variance among the different utilities. This variance should be entirely eliminated by the commissioner's decision.

The issue here is the proper treatment of the revenues collected to cover the newly unbundled charge for transmission of economy energy sales. All parties appear to agree that the purchasing utility should pass the transmission charges through its fuel cost recovery clause. To the Citizens, it would appear to be beyond argument that simple fairness would require a symmetrical treatment for the revenues collected for the very same item. That is, if utilities are to treat unbundled transmission charges as recoverable in the fuel adjustment clause, surely utilities would treat the revenues likewise through the fuel adjustment clause. Three of the four utilities, however, seek to bury these revenues in base rate revenues.

As the commission is well aware, revenues and expenses placed in the fuel adjustment are directly and almost immediately passed through to the customers. Adjustments to base rate revenues

and expenses, on the other hand, generally have no impact on the customers unless it is a test year or certain thresholds are pierced for overearnings refunds.

The Citizens are astonished, therefore, that three utilities expect customers to directly support all unbundled transmission expenses, but receive no benefit from unbundled transmission revenues.

The transmission cost that is being unbundled is not an incremental cost on the system of the utility providing the transmission. The transmission cost is calculated as a pro rata portion of the capital costs, that is, the financing and depreciation that is being proportioned to unbundle these transmission costs are already being fully charged to the utility's ratepayers. The financing and depreciation cost for the entire transmission system has already been included in each utility's last rate case (or settlement). Thus, the customers are already paying the utility for these costs that are being unbundled and re-charged to the utility making the economy purchase. The utility making the economy purchase, of course, passes all of these transmission charges directly to its customers through its fuel adjustment charge.

The unbundled transmission charges, then, amount to the purchasing customers making a proportionate contribution to the finance and depreciation costs of the selling utility's transmission assets. As emphasized however, the selling utility has already collected the entirety of those costs from its own customers. Equity dictates, then, that this contribution from the purchasing customers must go directly to the customers of the selling utility. The commission should remove any possibility that the utility will siphon off any of this contribution intended for its customers. The only way to assure this is to credit the revenues in the fuel recovery clause.

Besides the matter of fairness, the history of the treatment of economy energy sales also points out the need to include the transmission revenues in the fuel clause. Under previous commission

policy, the entire effect of economy sales formerly was calculated into base rates rather than fuel adjustment. Previously, the commission would estimate the net economy energy sales for a utility and incorporate that estimated net effect into a utility's projected test year. If a utility anticipated net economy purchases, it was granted additional base rate revenues to cover the cost. If it was net sales, base rate revenues were reduced in anticipation by that amount.

That policy was changed by the commission because of the unpredictability of the economy energy transactions. Because those transactions fluctuated to such a great degree, the commission decided it best to remove that uncertainty from the establishment of base rates. The commission ignored any effect in setting base rates, and instead decided to capture the entire effect in the fuel recovery factor.

By definition, the same level of unpredictability and fluctuation attending the economy energy sales applies with equal force to any unbundled transmission costs charged on the economy energy sales. The exact rationale for putting economy energy sales into fuel adjustment, then, applies equally to the transmission charges. Accordingly those unbundled transmission charges must also be separated from base rates and be reflected in the fuel recovery clause.

ISSUE 12

If the cost of transmission is used to determine the transaction price of an economy, Schedule C, broker transaction that requires wheeling between two non-directly interconnected utilities, how should the costs of this transmission be recovered?

OPC POSITION:

The equities inherent in this issue are identical to those in Issue 10. Utilities charged a wheeling fee should charge it through the fuel adjustment clause. Fundamental fairness dictates the

same treatment when a transmission owner collects wheeling charges. The revenues collected for wheeling should be credited to the transmission owner's customers through the fuel adjustment clause.

Respectfully submitted,

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CERTIFICATE OF SERVICE
DOCKET NO. 970001-EI

I HEREBY certify that a copy of the foregoing POST HEARING BRIEF OF THE CITIZENS OF THE STATE OF FLORIDA has been served by *hand delivery or U.S. Mail to the following parties of record on this 19th day of September, 1997.

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