

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power
cost recovery clause and
generating performance incentive
factor.

DOCKET NO. 010001-EI
ORDER NO. PSC-01-0710-PCO-EI
ISSUED: March 21, 2001

The following Commissioners participated in the disposition of
this matter:

E. LEON JACOBS, JR., Chairman
LILA A. JABER
BRAULIO L. BAEZ
MICHAEL A. PALECKI

ORDER APPROVING MID-COURSE CORRECTION

BY THE COMMISSION:

By Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI, this Commission required each investor-owned electric utility to notify this Commission when its projected fuel revenues result in an over-recovery or under-recovery in excess of ten percent of its projected fuel costs for the given recovery period. Depending on the magnitude of the over-recovery or under-recovery and the length of time remaining in the recovery period, a party may request, or we may order on our own motion, a mid-course correction to the utility's authorized fuel and purchased power cost recovery factors ("fuel factors").

On February 8, 2001, Florida Power Corporation ("FPC") notified us that it anticipates the fuel factors approved in Order No. PSC-00-2385-FOF-EI, issued December 12, 2000, will result in an under-recovery greater than ten percent. To address this under-recovery, FPC petitioned for approval of a mid-course correction to its fuel factors, effective beginning with the cycle 1 billings for April 2001, until modified by subsequent order of this Commission. FPC amended its petition on February 9, 2001, to make minor corrections related to inconsistent references to the requested effective date.

DOCUMENT NUMBER-DATE

03542 MAR 21 01

FPSC-RECORDS/REPORTING

FPC's under-recovery consists of three parts: (1) a \$29.4 million under-recovery for 2000; (2) a \$73.0 million estimated under-recovery for 2001; and (3) a \$29.7 million under-recovery for 2000 that we previously deferred to 2002. FPC has requested that we authorize it to change its fuel factors to collect the 2000 under-recovery of \$29.4 million and the estimated 2001 under-recovery of \$73.0 million during the remainder of 2001. Based on the analysis and the rationale set forth below, we approve FPC's request.

I. UNDER-RECOVERY FOR 2000

Based on actual results through December 2000, FPC experienced a \$29.4 million under-recovery for 2000. The \$29.4 million under-recovery for 2000 is primarily due to the following: an approximate \$17.2 million (2.1 percent) increase in Jurisdictional Fuel Costs and Net Power Transactions; an approximate \$5.7 million (-0.5 percent) decrease in Jurisdictional Fuel Revenues; and an approximate \$6.4 million decrease in revenue associated with the cumulative 1999 true-up provision.

The \$17.2 million variance in Jurisdictional Fuel Costs and Net Power Transactions is due to a \$15.1 million (2.0%) increase in generated power costs plus a \$15.3 million (6.5%) increase in purchased power costs, offset in part by an \$8.8 million (6.5%) increase in power sales.

The reason for the \$15.1 million variance in generated power costs was a large unexpected short-term increase in demand for both oil and natural gas during the last two months of 2000. In the short term, demand for these fuels is primarily dependent upon the weather. According to the National Climatic Data Center, the last two months of 2000 were the coldest November and December in 105 years nationwide. As natural gas prices rose, many electric utilities switched from natural gas-fired generation to oil-fired generation, when possible. These actions increased oil demand, which placed upward pressure on oil prices.

As stated above, we established guidelines in Order No. 13694 for utilities to notify this Commission of anticipated fuel cost

over-recoveries or under-recoveries in excess of ten percent. At page 6, the order states in pertinent part:

[W]hen a utility becomes aware that its projected fuel revenues applicable to a given six-month recovery period will result in an over- or under-recovery in excess of 10 percent of its projected fuel costs for the period, the utility shall so advise the Commission thorough a filing promptly made.

When we moved to annual, calendar year fuel factors, we expressly adopted the mid-course correction guidelines set forth in Order No. 13694. See Order No. PSC-98-0691-FOF-PU, issued May 19, 1998. These guidelines do not refer to an actual over- or under-recovery during a historical period, such as the 2000 period in this case. Thus, it is arguable that these guidelines were not intended to allow an historical period under-recovery to be collected through a mid-course correction. However, this Commission has previously allowed such historical period under-recoveries to be recovered through mid-course corrections. For example, by Order No. PSC-00-1081-PCO-EI, issued June 5, 2000, we authorized FPC to recover its 1999 under-recovery as part of its mid-course correction in 2000.

In this case, we find good reason to authorize FPC to collect its 2000 under-recovery through a mid-course correction. First, unlike the estimated 2001 under-recovery amount, FPC's \$29.4 million 2000 under-recovery represents the difference between actual costs incurred and revenues received. Although these amounts are unaudited, these actual fuel revenues and costs from 2000 have a higher degree of certainty than the projected fuel revenues and costs for 2001. We note that a Commission audit of FPC's 2000 fuel revenues and costs will occur in the normal course of this docket, and that any audit findings which compel an adjustment to these amounts may be addressed at our November 20-21, 2001, hearing scheduled for this docket. Second, recovery of the 2000 under-recovery commencing in April 2001, instead of January 2002, would be consistent with the basic principle of ratemaking which seeks to match the incurrence of costs with their cost recovery. If FPC had not filed a petition for approval of a mid-course correction, FPC would have collected the \$29.4 million under-recovery plus interest in 2002.

Based on the foregoing, we authorize FPC to collect its \$29.4 million under-recovery for 2000 as part of this mid-course correction.

II. ESTIMATED UNDER-RECOVERY FOR 2001

Based on updated projections for 2001, FPC estimates an under-recovery of fuel and purchased power costs of \$73.0 million for 2001. FPC requests a change in its fuel factors to collect its estimated 2001 under-recovery amount in order to mitigate the rate impact on its retail ratepayers during 2002.

In its petition, FPC asserts that its estimated under-recovery exceeds ten percent of its projected fuel and purchased power costs for the period. However, we calculated a 7.9 percent under-recovery for 2001 by dividing FPC's anticipated 2001 under-recovery (\$73.0 million) by FPC's original 2001 cost projections (\$920.2 million). It appears that FPC included its 2000 under-recovery as part of its calculation of the under-recovery percentage; by dividing \$102.4 million (the combination of the 2000 under-recovery and the estimated 2001 under-recovery amounts) by \$920.2 million, FPC calculated an 11.1 percent under-recovery. Regardless, the mid-course correction procedures in Order No. 13694 set ten percent as the trigger for notification of an over-recovery or under-recovery to this Commission, not as a threshold for requesting or receiving a mid-course correction. Allowing a mid-course correction for less than a ten percent under-recovery in this case is consistent with the principle of matching the timing of cost recovery to the timing of the costs incurred.

Review Process

Consistent with our review of previous mid-course correction petitions, our analysis of FPC's petition includes an examination of whether the assumptions (i.e., fuel prices, retail energy sales, generation mix, and system efficiency) that FPC used to support its re-projected fuel costs appear reasonable. FPC uses these updated assumptions to develop future cost and revenue estimates. During the scheduled November 20-21, 2001, hearing in this docket, we will compare these estimates to actual data, then apply the difference to next year's fuel factors through the true-up process established

in this docket. Any over-recovery that FPC may collect through its approved fuel factors will be refunded to FPC's ratepayers with interest. Further, any fuel costs that are found to have been imprudently incurred will be disallowed for cost recovery purposes.

Basis for FPC's Request

FPC states in its amended petition that its estimated \$73.0 million under-recovery amount is primarily due to higher natural gas prices and, to a lesser extent, higher oil and coal prices. These higher fuel prices resulted primarily from: (1) a significant short-term increase in demand at the end of 2000 that left storage levels for both fuels far below historic levels, creating price volatility; and (2) an insufficient supply of both fuels to meet the additional demand. These higher fuel prices, in turn, placed upward pressure on purchased power and generation costs.

FPC's current fuel factors are based on prices originally projected and applied in Karl H. Wieland's direct testimony, prefiled September 21, 2000, in Docket No. 000001-EI. Table 1 of Attachment A, which is incorporated in this order by reference, provides a comparison of FPC's forecasts of its average 2001 prices for natural gas, residual oil, distillate oil, coal, nuclear energy, and power purchased and sold as filed September 21, 2000, in Docket No. 000001-EI, and as filed February 8, 2001, in its petition for mid-course correction in this docket.

FPC states that it is minimizing its use of natural gas by using the "fuel-switching" capabilities of several generating units to burn oil, instead of natural gas. Excluding its nuclear units, FPC estimates that over 40 percent of its generation capacity can switch between oil and natural gas. Based on FPC's assumptions, we estimate that FPC may reduce its total fuel costs by approximately \$25 million in 2001 through its fuel-switching capabilities.

Reasonableness of FPC's Assumptions

We compared the data and assumptions that FPC relied upon to support its September 21, 2000, filing in Docket No. 000001-EI and its February 9, 2001, filing in this docket. One of FPC's assumptions did not change - retail energy sales remained the same.

However, three sets of FPC's assumptions did change: fuel price forecast; system efficiency; and unit dispatch.

Table 2 of Attachment A shows a comparison of FPC's revised forecast of natural gas commodity prices with the futures prices that existed on the New York Mercantile Exchange (NYMEX) at the close of trading on February 8, 2001, (the day FPC filed its mid-course correction petition) for the period March 2001 through December 2001. Table 3 of Attachment A shows the same comparison for distillate oil. In addition, we compared FPC's 2001 residual oil price forecast to the 2001 residual oil price estimate listed in the U.S. Energy Information Administration's (EIA) Short Term Energy Outlook for February 2001. We used EIA's estimate because NYMEX has not created a futures market for residual oil. FPC's 2001 average residual oil price estimate is \$3.35/MMBtu, compared with EIA's average residual oil price estimate of \$4.03/MMBtu.

We compared FPC's natural gas price forecast to NYMEX futures prices as a test for reasonableness. System costs calculated based on FPC's 2001 natural gas price forecast are approximately \$30.1 million less than system costs based on the NYMEX futures prices for January 10, 2001, (i.e., near the maximum price for natural gas on NYMEX during the past three months). Similarly, system costs calculated based on FPC's 2001 natural gas price forecast are approximately \$11.7 million less than system costs based on using the closing NYMEX futures prices for March 5, 2001, the day before our vote on this matter. Based on these comparisons, we find that FPC's natural gas commodity, residual oil, and distillate oil price forecasts are reasonable for purposes of its proposed mid-course correction.

Regarding FPC's efficiency assumptions, Table 4 of Attachment A shows that FPC's forecasted system efficiency fell approximately 0.8 percent to 10,189 Btu/kWh. We find that this reduction in system efficiency does not have a material impact on FPC's estimated 2001 under-recovery.

Table 5 of Attachment A shows the changes in FPC's forecast of net generation by fuel type for the filings FPC made on September 21, 2000, and February 8, 2001. As discussed previously, FPC has several generating units on its system that can burn oil or natural

gas, whichever fuel is less expensive at any given time. Also, as natural gas prices become increasingly more expensive relative to oil, more oil-fired generating units are economically dispatched ahead of natural gas-fired generating units. Based on the expected fuel prices for the remainder of 2001, FPC's forecast of net generation by fuel type is reasonable for purposes of its proposed mid-course correction.

Impact of Mid-Course Correction on FPC's Ratepayers

As stated above, FPC has proposed to collect its 2000 under-recovery and its estimated 2001 under-recovery through its proposed fuel factors. FPC's proposed fuel factors per delivery voltage are shown on Attachment B, which is incorporated herein by reference. Approval of these factors would increase a residential ratepayer's bill for 1,000 kWh/month by \$3.71 (4.14 percent) to \$93.41 for the remainder of 2001.

If its proposed mid-course correction is not approved, FPC estimates that a residential ratepayer's bill for 1,000 kWh/month for 2002 would rise \$3.53 from current levels to \$93.23. If its proposed mid-course correction is approved, FPC estimates that a residential ratepayer's bill for 1,000 kWh/month would rise \$0.71 from current levels to \$90.41 in 2002.

If FPC's proposed mid-course correction is approved, the amount of interest that FPC's ratepayers would pay on its estimated under-recovery amount may decrease. Pursuant to Order No. 9273, issued March 7, 1980, FPC's ratepayers pay interest on any under-recovery at the commercial paper rate. The commercial paper rate that FPC used to calculate the interest on its December 31, 2000, under-recovery balance was 6.58 percent. According to FPC, its ratepayers may avoid approximately \$5.7 million in interest payments through 2002 if it is permitted to collect its estimated under-recovery in 2001 instead of 2002.

Summary

In summary, we approve FPC's petition for mid-course correction for the following reasons. First, we find the assumptions that FPC has used to determine its estimated under-

recovery amount to be reasonable. Second, the mid-course correction may mitigate the rate impact of FPC collecting its estimated under-recovery during 2002. Third, the mid-course correction will reduce the interest expense that FPC's ratepayers would pay on FPC's 2001 estimated under-recovery balance if that balance were recovered in 2002. Finally, the mid-course correction will allow FPC to recover the additional fuel and purchased power costs that FPC is likely to incur in a timely manner. FPC's new fuel factors are shown on Attachment B and shall become effective as discussed below.

III. EFFECTIVE DATE FOR MID-COURSE CORRECTION

FPC has requested that its mid-course correction become effective beginning with FPC's first billing cycle for April 2001, which falls on March 29, 2001. Although this effective date would not allow a full 30-day notice to customers, we find FPC's proposal reasonable. Due to the magnitude of the under-recovery, we believe it is important that the new factors be implemented as soon as possible to mitigate the monthly billing impact of the mid-course correction. The March 29, 2001, effective date will also ensure that all customers are billed under the new rates for the same amount of time.

We have typically not required a 30-day notice period prior to implementing new fuel factors after a mid-course correction. See, e.g., Order No. PSC-96-0907-FOF-EI, issued July 15, 1996; Order No. PSC-96-0908-FOF-EI, issued July 15, 1996; Order No. PSC-97-0021-FOF-EI, issued January 6, 1997. Most recently, at our February 6, 2001, Agenda Conference, we approved mid-course corrections for each investor-owned natural gas utility to become effective on the date of our vote.

Due to the magnitude of the increase, FPC shall notify its ratepayers in writing of the newly approved fuel factors. FPC shall mail the notice to its customers as soon as possible after the date of our vote. The notice shall include, but not be limited to, the following information: the total dollar amount of the mid-course correction; the impact of the mid-course correction on the typical ratepayer's monthly bill; and the effective date of the newly approved fuel factors.

ORDER NO. PSC-01-0710-PCO-EI
DOCKET NO. 010001-EI
PAGE 9

Based on the foregoing, it is

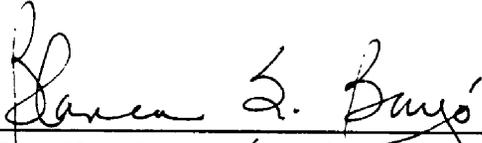
ORDERED by the Florida Public Service Commission that Florida Power Corporation's amended petition for mid-course correction to its fuel and purchased power cost recovery factors is granted. It is further

ORDERED that Florida Power Corporation's new fuel and purchased power cost recovery factors, set forth in Attachment B to this order, which is incorporated herein by reference, shall become effective beginning March 29, 2001, the date of Florida Power Corporation's first billing cycle for April 2001. It is further

ORDERED that Florida Power Corporation shall provide written notice of its new fuel and purchased power cost recovery factors to its customers as set forth in the body of this order.

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission this 21st day of March, 2001.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

WCK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural, or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Table 1: Change in FPC's 2001 Delivered Fuel Price Forecast (\$/MMBtu, except for power purchased and sold)			
	As-Filed (09/21/00)	As-Filed (02/8/01)	Change
Natural Gas	\$4.60	\$6.10	32.61%
Residual Oil	\$3.55	\$3.35	-5.63%
Distillate Oil	\$5.73	\$5.92	3.32%
Coal	\$1.83	\$1.90	3.83%
Nuclear	\$0.33	\$0.33	0.00%
Purchased Power (\$/MWH)	\$21.00	\$22.95	9.20%
Power Sold (\$/MWH)	\$43.79	\$50.04	14.27%

Table 2: FPC Monthly Natural Gas Commodity Price Compared to NYMEX (\$/MMBtu)				
Month in 2001	FPC 02/08/01 Petition Natural Gas Price	NYMEX 02/08/01 Natural Gas Price	Difference	Percent Difference
March	\$7.27	\$6.16	\$1.11	18.02%
April	\$5.37	\$5.86	(\$0.49)	-8.36%
May	\$4.95	\$5.64	(\$0.69)	-12.23%
June	\$4.97	\$5.62	(\$0.65)	-11.57%
July	\$4.97	\$5.63	(\$0.66)	-11.72%
August	\$4.97	\$5.64	(\$0.67)	-11.88%
September	\$5.00	\$5.59	(\$0.59)	-10.55%
October	\$5.44	\$5.60	(\$0.16)	-2.86%
November	\$5.34	\$5.67	(\$0.33)	-5.82%
December	\$5.37	\$5.76	(\$0.39)	-6.77%

Month in 2001	FPC's 02/08/01 Petition Distillate Oil Price	NYMEX 02/08/01 Distillate Oil Price	Difference	Percent Difference
March	\$5.68	\$6.06	(\$0.38)	-6.27%
April	\$5.71	\$5.85	(\$0.14)	-2.39%
May	\$5.71	\$5.67	\$0.04	0.71%
June	\$5.71	\$5.56	\$0.15	2.70%
July	\$5.73	\$5.51	\$0.22	3.99%
August	\$5.72	\$5.51	\$0.21	3.81%
September	\$5.73	\$5.54	\$0.19	3.43%
October	\$6.21	\$5.57	\$0.64	11.49%
November	\$6.21	\$5.60	\$0.61	10.89%
December	\$6.20	\$5.63	\$0.57	10.12%

	As-filed (09/21/00)	As-Filed (02/08/01)
Residual Oil	10,232	10,231
Distillate Oil	14,268	13,241
Coal	9,534	9,570
Natural Gas	10,158	10,730
Nuclear	10,186	10,160
WEIGHTED AVERAGE	10,108	10,189

Table 5: FPC's System Net Generation (GWH) by Fuel Type			
	As-Filed 09/21/2000	As-Filed 02/08/2001	% Change
Residual Oil	5,618	6,726	19.72%
Distillate Oil	1,838	2,509	36.51%
Coal	15,766	15,209	-3.53%
Natural Gas	4,695	3,047	-35.10%
Nuclear	5,971	5,754	-3.63%
TOTAL	33,888	33,244	-1.90%

FLORIDA POWER CORPORATION
FUEL AND PURCHASED POWER COST RECOVERY FACTORS
BY DELIVERY VOLTAGE LEVEL
APRIL 2001 - DECEMBER 2001

<u>Group</u>	<u>Delivery Voltage Level</u>	<u>Fuel Cost Factors (cents/kWh)</u>		
		<u>Standard</u>	<u>Time Of Use</u>	
			<u>On-Peak</u>	<u>Off-Peak</u>
A.	Transmission	2.828	3.872	2.359
B.	Distribution Primary	2.856	3.910	2.382
C.	Distribution Secondary	2.885	3.950	2.406
D.	Lighting Service	2.695		