BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.	DOCKET NO. 030001-EI ORDER NO. PSC-03-0381-PCO-EI ISSUED: March 19, 2003

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

ORDER APPROVING MID-COURSE CORRECTION TO FUEL AND PURCHASED POWER COST RECOVERY FACTORS

BY THE COMMISSION:

I. CASE BACKGROUND

By Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI, this Commission required each investor-owned electric utility to notify us when its projected fuel revenues are expected to result in an over-recovery or under-recovery in excess of 10 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 approve on our own motion, a mid-course correction to the utility's authorized fuel and purchased power cost recovery factors ("fuel factors").

On February 13, 2003, Florida Power & Light Company ("FPL") notified our staff that it anticipates the fuel factors approved for FPL by Order No. PSC-02-1761-FOF-EI, issued December 13, 2002, in Docket No. 020001-EI, will result in an under-recovery of greater than 10 percent. On February 17, 2003, FPL filed a petition for a mid-course correction to its fuel factors, effective April 2, 2003, until modified by subsequent Commission order.

In this Order, we address FPL's petition in three parts. First, we address FPL's under-recovery for 2002. Second, we address FPL's projected under-recovery for 2003. Finally, we address the effective date for FPL's modified fuel factors. Jurisdiction over this matter is vested in this Commission by several provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06, Florida Statutes.

II. FPL's UNDER-RECOVERY FOR 2002

Based on actual results through December, 2002, FPL states that it experienced a \$72.5 million under-recovery for 2002. This \$72.5 million under-recovery is primarily due to an approximate \$81.7 million (3.4 percent) increase compared to projections in Jurisdictional Fuel Costs & Net Power Transactions, offset by an approximate \$9.4 million increase compared to projections in Jurisdictional Fuel Revenues.

FPL states that the \$81.7 million variance in Jurisdictional Fuel Costs and Net Power Transactions is primarily due to a \$60.8 million (3 percent) increase compared to projections in Fuel Cost of System Net Generation, plus a \$27.4 million (6.5 percent) increase compared to projections for total cost of purchased power. These amounts are offset by a \$4.4 million (8.8 percent) increase compared to projections in Fuel Cost and Gains of Power Sold, and a \$1.0 million decrease in Adjustments to Fuel Cost compared to projections.

FPL states that the reason for the \$81.7 million variance in Fuel Cost of System Net Generation was a large, unexpected, short-term increase in demand and price for both oil and natural gas during the last two months of 2002. In the short term, demand for these fuels is primarily dependent upon the weather. 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 through a filing promptly made.

(Emphasis added.)

When we moved from semiannual to annual calendar year fuel cost recovery 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, in Docket No. 980269-PU. These guidelines do not refer to an actual over-recovery or under-recovery during a historical period, such as the 2002 period in this case. However, we have permitted investor-owned electric utilities to collect such under-recovered amounts or refund such over-recovered amounts as part of mid-course corrections in subsequent recovery periods. See Order No. PSC-00-1081-PCO-EI, issued June 5, 2000, in Docket No. 000001-EI, and Order No. PSC-01-0963-PCO-EI, issued April 18, 2001, in Docket No. 010001-EI.

In this case, we find good reason to authorize FPL to collect its 2002 under-recovery through this mid-course correction. First, unlike FPL's projected 2003 under-recovery amount, FPL's $72.5 million 2002 under-recovery represents the difference between actual costs incurred and revenues received. Although unaudited, these actual fuel revenues and costs from 2002 have a higher degree of certainty than the projected fuel revenues and costs for 2003. We note that our staff has commenced an audit of FPL's 2002 fuel revenues and costs 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 12-14, 2003, hearing scheduled for this docket. Second, recovery of the $72.5 million under-recovery commencing in April 2003, instead of January 2004, would be consistent with the basic principle of ratemaking which seeks to match the timing of the incurrence of costs with the timing of their recovery. If FPL had not filed a petition for mid-course correction, FPL would have collected, subject to regulatory review, the $72.5 million under-recovery plus interest in 2004.

Based on the foregoing, we authorize FPL to collect its $72.5 million under-recovery for 2002 as part of this mid-course correction. As a result, based on projected jurisdictional energy sales of 75,152,890 MWH for April through December 2003, the bill for a residential ratepayer who uses 1,000 kWh monthly will increase by $0.98.

III. FPL'S PROJECTED UNDER-RECOVERY FOR 2003

Based on updated projections for 2003 as of the time of FPL's petition, FPL estimates an under-recovery of $274.9 million (10.6 percent) for 2003. FPL requests a change in its fuel factors to recover this amount.

Review Process

Consistent with our review of previous mid-course correction petitions, our analysis of FPL's petition includes an examination of whether the assumptions (i.e., fuel prices, retail energy sales, generation mix, and system efficiency) that FPL used to support its re-projected fuel costs appear reasonable. FPL uses these updated assumptions to develop future cost and revenue estimates. During the scheduled November 12-14, 2003, 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. Any over-recovery that FPL may collect through its approved fuel factors will be refunded to FPL's ratepayers with interest. We will address whether FPL has acted prudently to procure fuels reliably and cost-effectively at our November 12-14, 2003, evidentiary hearing.

Basis for FPL's Request

In its petition, FPL states that the projected $274.9 million under-recovery amount is primarily due to higher projected natural gas prices and residual oil prices. These prices were originally projected in Gerard Yupp's direct testimony and applied in Korel Dubin's supplemental direct testimony, both prefiled November 4, 2002, in Docket No. 020001-EI. Table 1 in Attachment A, which is incorporated in this Order by reference, compares FPL's forecasts of the average 2003 fuel prices as filed on November 4, 2002, in

Docket No. 020001-EI, and on February 17, 2003, in its petition for mid-course correction.

FPL provides three reasons for the higher projected natural gas prices for 2003, all of which are related to natural gas supply. First, colder than normal weather in the natural gas burning regions of North America has resulted in significantly larger than anticipated withdrawals from gas storage. Second, FPL expects lower domestic natural gas production as reflected in a slow rebound in domestic natural gas-directed rig activity. Third, FPL expects that there will be lower U.S. imports of natural gas from Canada and lower deliveries of liquefied natural gas.

FPL provides four reasons for the higher projected residual oil prices for 2003. These reasons, reflecting oil supply concerns, include increasing tensions in the Middle East in anticipation of a war, an unanticipated and continuing oil workers strike in Venezuela, and a continuation of historically low crude oil and residual fuel oil (and heating oil) inventories in the U.S. In addition, the colder than normal winter, especially in the heating regions of North America, has placed additional demand pressure on price.

FPL's Mitigation Efforts

FPL states that it employs several methods to mitigate the impact of higher fuel costs. First, FPL can partially mitigate natural gas price increases by increasing generation at its generating units that do not burn natural gas, to the extent available capacity exists at these units. FPL's current generation assets are divided approximately equally among nuclear, oil-fired, and natural gas-fired generation, with the remainder comprised of coal-fired generation and purchased power.

Second, FPL is minimizing its use of natural gas by using the "fuel-switching" capabilities of several generating units to burn oil instead of natural gas.

Third, FPL engages in two types of wholesale energy transactions to mitigate its purchased power costs. Because coal continues to be a low cost fuel, FPL is purchasing wholesale energy from coal-fired generating units to reduce consumption of oil and natural gas on FPL's system. Also, FPL is selling wholesale energy from its oil-fired generating units to utilities at a price which results in a net benefit to FPL's ratepayers. If these wholesale energy sales are less than one year in duration, FPL credits customers with the generation-related gains from these sales through the fuel and purchased power cost recovery clause ("fuel clause") pursuant to Order No. PSC-99-2512-FOF-EI, issued December 22, 1999, in Docket No. 990001-EI.

Fourth, FPL states that it has engaged in two additional types of transactions to minimize its fuel costs. When FPL can purchase oil and natural gas at prices lower than expected future prices plus storage costs, FPL often purchases these fuels in quantities greater than its immediate demand for electric generation. FPL then stores the excess oil and natural gas for later use. We note that FPL does not recover the costs of these purchases through the fuel clause until the fuel is burned or consumed in FPL's generating units, as set forth in Order No. 6357, issued November 26, 1974, in Docket No. 74680-CI. Also, FPL states that it has entered into bilateral transactions with customized pricing mechanisms with fuel suppliers, which provide oil and natural gas to FPL at market prices or lower to the benefit of FPL ratepayers.

Fifth, FPL engages in financial hedging instruments, such as futures, options, and swaps. While FPL has limited its participation in these types of transactions, FPL states that it has been developing the necessary infrastructure during the past year to participate in such financial hedging activities.

Reasonableness of FPL's Assumptions

We compared the data and assumptions that FPL relied upon to support its November 4, 2002, projection filing and its February 17, 2003, mid-course correction filing. One of FPL's assumptions did not change: retail energy sales remained the same at 97,034,630 MWH. However, three sets of FPL's assumptions did change: fuel price forecast; system efficiency; and unit dispatch.

Table 2 in Attachment A compares FPL'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 14, 2003, for the period March 2003 through

December 2003. The market was closed on February 17, 2003, in recognition of President's Day, so the preceding market day was used to approximate the date of FPL's petition. The data in the table indicate that FPL's natural gas price forecast ranges from 10.3 percent to 16.8 percent less than the NYMEX for each remaining month in 2003. In addition, we compared FPL's 2003 residual oil price forecast to the 2003 residual oil price estimate listed in the U.S. Energy Information Administration's ("EIA") Short Term Energy Outlook for February 2003. We used EIA's estimate because NYMEX has not created a futures market for residual oil. FPL's 2003 residual oil price estimate is $4.16/MMBtu compared with EIA's residual oil price estimate of $4.36/MMBtu. Based on these comparisons, we find FPL's natural gas commodity and residual oil price forecasts are reasonable for purposes of the proposed mid-course correction.

Table 3 in Attachment A shows that FPL's forecasted system efficiency fell by approximately 0.4 percent, resulting primarily from the increased oil-fired generation planned for 2003. Since oil-fired generation is replacing some natural gas-fired generation, FPL's forecasted weighted average system efficiency decreased from 9,225 Btu/kWh to 9,261 Btu/kWh. We find this assumption reasonable.

Table 4 in Attachment A shows the changes in FPL's forecast of net generation by fuel type for the filings FPL made on November 4, 2002, and February 17, 2003. As discussed above, FPL 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 increase relative to oil prices, more oil-fired generating units are economically dispatched ahead of natural gas-fired generating units. These impacts are reflected in Table 4, as FPL's projected natural gas-fired generation decreased by 1.7 percent and oil-fired generation increased 2.8 percent. In addition, FPL's petition shows that coal and nuclear generation are maximized. Based on the expected fuel prices for the remainder of 2003, FPL's forecast of net generation by fuel type is reasonable for purposes of its proposed mid-course correction.

Estimated Savings/Losses Associated with Fuel Price Hedging

FPL projects that it will achieve certain fuel cost savings via fuel price hedges it has transacted for 2003. FPL reports that most of the savings are based on physical hedges rather than financial hedges. FPL calculated savings by multiplying the actual hedged volumes times the differential between FPL's fixed price position and the fuel price forecast supporting FPL's petition for mid-course correction on a monthly basis. FPL projects that its hedging activities will yield 2003 price savings of $9.5 million for natural gas purchases and $7.7 million savings for residual oil purchases. FPL projects that it will also create savings of $5.5 million through its wholesale energy sales and $4.6 million through its wholesale energy purchases. FPL reports that these savings are reflected in its petition for mid-course correction.

In the latter part of 2002, FPL hedged from 19 to 33 percent of its natural gas purchases. FPL states that its hedged volumes of natural gas decline throughout 2003 compared to the percentage hedged in late 2002, particularly with respect to fixed price positions, consistent with a trending decline in projected natural gas prices through October 2003. FPL reports that it continues to look for hedging opportunities in the natural gas market.

Impact of Mid-Course Correction on FPL's Ratepayers

FPL has proposed to collect its projected 2003 under-recovery and its 2002 under-recovery over the period April through December, 2003. The proposed fuel cost recovery factors by FPL rate schedule are shown on Attachment B, which is incorporated in this Order by reference. Under FPL's proposal, the bill for a residential ratepayer using 1,000 kWh would increase by $4.75 (6.2 percent) to $81.60.

We find that allowing recovery of FPL's projected 2003 under-recovery and its 2002 under-recovery beginning in April, 2003, will provide a better price signal to customers than if the recovery of these amounts were deferred until January, 2004. In other words, recovery now will provide a better match between the time costs are incurred and the time they are recovered. In addition, we find that deferring these costs could result in a more severe impact upon customer rates in January 2004. Scenarios where that could happen include the following: (1) 2003 actual costs exceed FPL's newly projected costs; or (2) 2004 costs are projected to be at or above the level of costs reflected in the current FPL fuel factors.

Further, we find that allowing recovery of FPL's 2002 under-recovery beginning in April, 2003, rather than January, 2004, will decrease the amount of interest that FPL's ratepayers will pay on that amount. Pursuant to Order No. 9273, issued March 7, 1980, in Docket No. 74680-CI, FPL's ratepayers pay interest on any under-recovery at the commercial paper rate. The commercial paper rate that FPL used to calculate the interest on its 2002 under-recovery balance was 1.3 percent. According to FPL, its ratepayers will avoid approximately $800,000 in interest payments through 2004 if we authorize FPL to collect its 2002 under-recovery in 2003 instead of 2004.

Conclusion

Consistent with our findings set forth above, we grant FPL's petition for mid-course correction of its fuel factors for the following reasons: (1) FPL's projected under-recovery based on the current factors exceeds the ten percent threshold for reporting purposes; (2) FPL's projected under-recovery is based on reasonable fuel price assumptions; (3) FPL's proposed mid-course correction should result in better price signals to FPL customers; and (4) the proposed mid-course correction may prevent more severe customer rate impacts in 2004. Any over-recovery that FPL collects through its approved fuel factors will be refunded to FPL's ratepayers with interest.

IV. EFFECTIVE DATE FOR MID-COURSE CORRECTION

FPL has requested an effective date for its mid-course correction beginning with its cycle 3 billings for April, 2003, which fall on April 2, 2003. Although this effective date falls a day short of the customary 30-day notice requirement for rate increases, we find FPL's proposed effective date to be 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 this mid-course correction. The April 2, 2003, effective date will also insure 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 cost recovery 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. We did require a 30-day notice in Order No. PSC-00-1081-PCO-EI, issued June 5, 2000, which granted FPL's, Florida Power Corporation's, and Tampa Electric Company's petitions for mid-course corrections in 2000. In that case, we found that providing customers with the full 30 days' notice was appropriate. We delayed the implementation of the new factors for approximately two weeks to allow customers the opportunity to adjust their usage in light of the new factors. In this instance, as noted, the effective date recommended falls short of the 30-day notice period by one day.

FPL shall notify its ratepayers in writing of the new fuel factors approved herein. FPL is required to mail this notice to its customers as soon as possible after 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 on the monthly bill of a residential ratepayer using 1,000 kWh; and the effective date of the new fuel factors.

Based on the foregoing, it is

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

ORDERED that the fuel and purchased power cost recovery factors approved herein for Florida Power & Light Company shall become effective with Florida Power & Light Company's cycle 3 billings for April, 2003, which occur on April 2, 2003. It is further

ORDERED that Florida Power & Light Company shall provide its customers written notice of the fuel and purchased power cost recovery factors approved herein, as set forth in the body of this order. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission this 19th day of March, 2003.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

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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; or (2) 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 the Commission Clerk and Administrative Services, 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.

ATTACHMENT A

Table 1: Change in FPL's 2003 Delivered Fuel Price Forecast ($/MMBtu)			
	As-Filed (11/04/02)	As-Filed (02/17/03)	Change
Natural Gas	$4.81	$5.58	16.01%
Residual Oil	$3.85	$4.16	8.05%
Distillate Oil	$6.00	$6.41	6.83%
Coal	$1.77	$1.78	0.01%
Nuclear	$0.31	$0.30	-0.03%

Table 2: FPL Monthly Natural Gas Commodity Price Compared to NYMEX ($/MMBtu)				
Month in 2003	FPL 02/17/03 Petition Natural Gas Price	NYMEX 02/14/03 Natural Gas Price	Difference	Percent Difference
March	$5.15	$5.74	($0.59)	-10.28%
April	$4.80	$5.55	($0.75)	-13.51%
May	$4.45	$5.35	($0.90)	-16.82%
June	$4.45	$5.26	($0.81)	-15.40%
July	$4.45	$5.23	($0.78)	-14.91%
August	$4.45	$5.19	($0.74)	-14.18%
September	$4.45	$5.15	($0.70)	-13.51%
October	$4.45	$5.16	($0.71)	-13.68%
November	$4.45	$5.31	($0.86)	-16.12%
December	$4.75	$5.46	($0.71)	-12.92%

ATTACHMENT A

Table 3: FPL's Forecasts of System Efficiency (Btu/kwh)		
	As-filed (11/04/02)	As-Filed (02/17/03)
Residual Oil	9,921	9,946
Distillate Oil	12,862	12,987
Coal	10,509	10,516
Natural Gas	7,430	7,449
Nuclear	10,509	10,516
Weighted Average	9,225	9,261

Table 4: FPL's System Net Generation (GWH) by Fuel Type			
	As-Filed 11/04/2002	As-Filed 02/17/2003	% Change
Residual Oil	17,596,469	18,094,002	2.83%
Distillate Oil	53,290	84,879	59.28%
Coal	6,750,341	6,946,353	2.90%
Natural Gas	39,711,734	39,027,939	-1.72%
Nuclear	23,870,395	24,024,310	0.64%
Total	87,982,229	88,177,483	0.22%

ATTACHMENT B

Florida Power & Light Company
Approved Fuel and Purchased Power Cost Recovery Factors
For the Period: April through December 2003

Group	Rate Schedule	Fuel Cost Recovery Factor (cents/kWh)
A	RS-1, GS-1, SL-2	3.203
A-1	SL-1, OL-1, PL-1	3.151
B	GSD-1	3.203
C	GSLD-1, CS-1	3.199
D	GSLD-2, CS-2, OS-2, MET	3.178
E	GSLD-3, CS-3	3.050
A	RST-1, GST-1 ON-PEAK OFF-PEAK	 3.444 3.096
B	GSDT-1, CILC-1(G) ON-PEAK OFF-PEAK	 3.444 3.096
C	GSLDT-1, CST-1 ON-PEAK OFF-PEAK	 3.440 3.092
D	GSLDT-2, CST-2 ON-PEAK OFF-PEAK	 3.417 3.072
E	GSLDT-3,CST-3,CILC-1(T),ISST-1(T) ON-PEAK OFF-PEAK	 3.279 2.948
F	CILC-1(D), ISST-1(D) ON-PEAK OFF-PEAK	 3.413 3.068