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-03-0382-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, which consist of "fuel factors" and "capacity factors."

On February 14, 2003, Progress Energy Florida, Inc. ("PEF") notified our staff that it anticipates the fuel factors approved for PEF 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 18, 2003, PEF filed a petition for a mid-course correction to its fuel and capacity factors, to be effective beginning with its cycle one billings for April 2003, until modified by subsequent Commission order.

In this Order, we address PEF's petition in four parts. First, we address PEF's projected over-recovery of capacity costs for 2003. Second, we address PEF's under-recovery of fuel costs for 2002. Third, we address PEF's projected under-recovery of fuel costs for 2003. Finally, we address the effective date for PEF's modified fuel and capacity 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. PEF's PROJECTED CAPACITY COST OVER-RECOVERY FOR 2003

Based on actual results to date and updated projections for the remainder of 2003, PEF anticipates a capacity cost over-recovery of approximately $21.1 million by the end of 2003. This amount is composed of a $16.5 million projected over-recovery for 2003 and a $4.6 million over-recovery for 2002. PEF cites two major causes of this over-recovery: (1) an estimated reduction of payments to qualifying facilities; and (2) actual and estimated increases in system requirements for 2003. While the estimated capacity cost over-recovery amount is below the 10 percent threshold for reporting requirements, PEF is requesting a reduction in its capacity factors to mitigate the rate impacts of its request for a mid-course correction to its fuel factors.

We find PEF's request to reduce its capacity factors reasonable. This action will partially offset the increase in PEF's fuel factors that we approve as set forth below. This adjustment will offset increases to retail rates by approximately $21.1 million for the remainder of the 2003 cost recovery period. Our approval of this request does not, however, infer any decision regarding the prudence of these capacity expenses at this time.

III. PEF's FUEL COST UNDER-RECOVERY FOR 2002

Based on actual results through December 2002, PEF states that it experienced a $66.3 million under-recovery of fuel costs for 2002. In Order No. PSC-02-1761-FOF-EI, we estimated that PEF would experience a $34,585,760 over-recovery of fuel costs for 2002.

However, according to PEF's December 2002 Schedule A2, PEF's actual true-up balance for 2002 was a $31,685,712 under-recovery. Thus, PEF must collect an additional $66,271,472 through its fuel factors to recover these additional fuel costs. PEF requests approval to recover $28.5 million of this amount as part of this mid-course correction. PEF would defer the remainder to be recovered in the 2004 cost recovery period.

PEF states that the reason for the $66.3 million under-recovery 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 PEF to collect $28.5 million of its 2002 under-recovery through this mid-course correction. First, unlike PEF's projected 2003 under-recovery amount, PEF's 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 PEF'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 $28.5 million of the total 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 PEF had not filed a petition for mid-course correction, PEF would have collected, subject to regulatory review, this $28.5 million under-recovery plus interest in 2004.

IV. PEF'S PROJECTED UNDER-RECOVERY FOR 2003

Based on updated projections for 2003, PEF estimates a fuel cost under-recovery of $93.9 million (10.6 percent) for 2003. PEF requests a change in its fuel factors to recover this amount, in addition to that portion of PEF's 2002 fuel cost under-recovery addressed above, offset by PEF's projected 2003 capacity cost over-recovery addressed above.

Review Process

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

Basis for PEF's Request

In its petition, PEF states that the 2003 projected fuel cost under-recovery of $93.6 million is primarily due to higher projected natural gas and residual oil prices. These prices were originally projected in Javier Portuondo's direct testimony, prefiled September 20, 2002, in Docket No. 020001-EI. Table 1 in Attachment A, which is incorporated in this Order by reference, compares PEF's forecasts of the average 2003 fuel prices as filed on September 20, 2002, in Docket No. 020001-EI, and on February 18, 2003, in its petition for a mid-course correction.

PEF provides three reasons for the higher projected natural gas and oil prices for 2003. PEF cites the colder than expected winter, the national and global energy markets' reaction to potential hostilities in the Middle East, and the Venezuelan oil workers' strike.

PEF states that it employs several methods to mitigate the impact of higher fuel costs. First, PEF can partially mitigate the natural gas price increases by increasing generation at its other generating units that do not burn natural gas, to the extent available capacity exists at these units. Currently, PEF has more coal-fired generation (35%) than any other source, with the remainder of its generation coming from a mixture of nuclear, natural gas-fired, and oil-fired generation. The remaining balance of PEF's resources for serving its retail load is comprised of energy purchases.

Second, PEF is minimizing its use of natural gas by using the fuel-switching capabilities of certain generating units to burn oil instead of natural gas. This capability exists in over 40% of PEF's fossil fuel generating units.

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

Reasonableness of PEF's Assumptions

We compared the data and assumptions that PEF relied upon to support its September 20, 2002, projection filing and its February 18, 2003, mid-course correction filing. Four sets of PEF's assumptions changed: retail sales forecast; fuel price forecast; system efficiency; and unit dispatch.

Compared to the sales forecast in PEF's September 20, 2002, projection filing, PEF's retail sales forecast increased 658,232 kWh to 38,323,016 kWh. PEF expects to generate most of this incremental energy itself (95.2 percent), rather than purchase this energy through other sources. PEF claims that this increase in retail energy sales will have no impact on unit price of fuels or total fuel costs.

Table 2 in Attachment A compares PEF'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 19, 2003, for the period March 2003 through December 2003. The data in the table indicate that PEF's natural gas price forecast ranges from 16.1 percent lower than the NYMEX to 12.2 percent higher than the NYMEX. For March through June, PEF's natural gas price forecast is significantly lower than the NYMEX, but for July through December, its forecast is significantly higher than the NYMEX. PEF chose to equate its July through December natural gas price forecast with its high band forecast. PEF indicates that it did this because of its expectation of increased tensions in the Middle East in the latter part of the year. Furthermore, PEF states that it will be aggressively hedging natural gas during the latter half of 2003 based on its expectation that high natural gas prices will prevail during that period. We recognize that PEF's assumptions regarding geopolitical instability yield significant differences in forecasted natural gas prices. However, we find that these assumptions, as applied in this instance, are not unreasonable. Wide swings in futures prices for natural gas have been witnessed during the past several months. While PEF's fuel price forecast may be skewed to the higher end of market expectations as of the time PEF filed its petition, we find that its forecast of natural gas prices is reasonable for purposes of the proposed mid-course correction.

In addition, we compared PEF'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. PEF's 2003 residual oil price estimate is \$4.26/MMBtu compared with EIA's residual oil price estimate of \$4.36/MMBtu. Based on this comparison, we find PEF's residual oil price forecasts are reasonable for purposes of the proposed mid-course correction.

Table 3 in Attachment A shows that PEF's forecasted system efficiency increases by approximately 0.7 percent. Because PEF projects to replace natural gas-fired generation with oil-fired generation and because oil is burned less efficiently than natural gas, this forecasted result is counter-intuitive. However, PEF projects improved efficiency in burning oil, natural gas, and coal as compared to its previous projections, and that impact overwhelms the impact on system efficiency of substituting oil for natural gas. PEF's forecasted weighted average system efficiency increased from 9,715 Btu/kWh to 9,649 Btu/kWh. We find this assumption reasonable.

Table 4 in Attachment A shows the changes in PEF's forecast of net generation by fuel type for the filings PEF made on September 20, 2002, and February 18, 2003. As discussed above, PEF 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 PEF's projected natural gas-fired generation decreased by 24.7

percent and residual oil-fired generation increased 57.3 percent. In addition, PEF's petition shows that coal and nuclear generation are maximized. Based on the expected fuel prices for the remainder of 2003, PEF's forecast of net generation by fuel type is reasonable for purposes of its proposed mid-course correction.

Estimated Savings/Losses Associated with Hedging

PEF projects that it will achieve certain fuel cost savings via fuel price hedges it has transacted for 2003. PEF reports that most of the savings are based on physical hedges, rather than financial hedges. PEF hedged between 12 and 49 percent of its natural gas purchases from August, 2002, through January, 2003. PEF forecasts it will have hedged between 18.2 and 48.5 percent of its natural gas purchases from February, 2003, to December, 2003. PEF projects actual/projected savings of $25,177,501 related to natural gas hedging for the period August, 2002, through December, 2003. PEF indicates that the savings for 2003 are reflected in its petition for mid-course correction. PEF calculated savings from its natural gas hedges by multiplying its actual/forecasted hedged volumes times the differential between PEF's fixed price position and the *Inside FERC* published price for each month.

PEF hedged between 0 and 51 percent of its monthly residual oil purchases from August, 2002, through January, 2003. PEF reports residual oil hedging losses of $579,956 during that period. Percent of volumes hedged, gains, and losses are not estimated for the forecast period. Meanwhile, PEF reports it has generated approximately $7 million in savings from August, 2002, through January, 2003, by buying and selling off-system wholesale energy. PEF provided no forecast for savings/losses associated with wholesale energy transactions for the period February, 2003, through December, 2003. PEF calculated this loss by multiplying its actual volumes purchased times the differential between PEF's fixed price position and actual prices paid on remaining residual oil at the time of purchase.

Impact of Mid-Course Correction on PEF's Ratepayers

Netting the projected and actual over-recovery and under-recovery amounts discussed above, PEF seeks a total increase in 2003 recoverable costs of $101.3 million. PEF proposes that this mid-course correction be effective for the period April through December, 2003. The proposed fuel and capacity factors by PEF rate schedule are shown on Attachment B, which is incorporated in this Order by reference. Under PEF's proposal, the bill for a residential ratepayer using 1,000 kWh would increase by $3.36 (4.2 percent) to $83.71.

We find that allowing recovery of the additional projected costs associated with PEF's petition 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 PEF's newly projected costs; or (2) 2004 costs are projected to be at or above the level of costs reflected in the current PEF fuel factors.

Further, we find that allowing recovery of a portion of PEF's 2002 under-recovery beginning in April, 2003, rather than January, 2004, will decrease the amount of interest that PEF's ratepayers will pay on that amount. Pursuant to Order No. 9273, issued March 7, 1980, in Docket No. 74680-CI, PEF's ratepayers pay interest on any under-recovery at the commercial paper rate. The commercial paper rate that PEF used to calculate the interest on its 2002 under-recovery balance was 1.3 percent. According to PEF, its ratepayers will avoid $321,625 in interest payments through 2004 if we authorize PEF to collect the requested portion of its 2002 under-recovery in 2003 instead of 2004.

Conclusion

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

V. EFFECTIVE DATE FOR MID-COURSE CORRECTION

PEF has requested an effective date for its mid-course correction beginning with its cycle 1 billings for April, 2003, which fall on March 28, 2003. Although this effective date falls six days short of the customary 30-day notice requirement for rate increases, we find PEF'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 March 28, 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 Florida Power & Light Company'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 six days.

PEF shall notify its ratepayers in writing of the new fuel factors approved herein. PEF 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 the petition of Progress Energy Florida, Inc., 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 Progress Energy Florida, Inc., as set forth in Attachment B to this Order, shall become effective with Progress Energy Florida's cycle 1 billings for April, 2003, which occur on March 28, 2003. It is further

ORDERED that Progress Energy Florida, Inc., 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

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

(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; 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 PEF's 2003 Delivered Fuel Price Forecast ($/MMBtu)			
	As-Filed (9/20/02)	As-Filed (02/18/03)	Change
Natural Gas	$3.88	$5.96	53.61%
Residual Oil	$3.68	$4.26	15.76%
Distillate Oil	$5.61	$6.44	14.80%
Coal	$2.27	$2.27	0.00%
Nuclear	$0.33	$0.33	0.00%

Table 2: PEF's Monthly Natural Gas Commodity Price Compared to NYMEX ($/MMBtu)				
Month in 2003	PEF's Petition Natural Gas Price	NYMEX 02/19/03 Natural Gas Price	Difference	Percent Difference
March	$4.71	$5.32	($0.61)	-11.47%
April	$4.31	$5.14	($0.83)	-16.15%
May	$4.26	$4.95	($0.69)	-13.94%
June	$4.26	$4.87	($0.61)	-12.53%
July	$5.41	$4.85	$0.56	11.55%
August	$5.41	$4.82	$0.59	12.24%
September	$5.31	$4.78	$0.53	11.09%
October	$5.26	$4.80	$0.46	9.58%
November	$5.26	$4.93	$0.33	6.69%
December	$5.41	$5.07	$0.34	6.71%

ATTACHMENT A

Table 3: PEF's Forecasts of System Efficiency (Btu/kwh)		
	As-filed (9/20/02)	As-Filed (02/18/03)
Residual Oil	10,428	9,970
Distillate Oil	13,389	12,972
Coal	9,439	9,290
Natural Gas	8,933	8,712
Nuclear	10,330	10,560
Weighted Average	9,715	9,649

Table 4: PEF's System Net Generation (GWH) by Fuel Type			
	As-Filed 9/20/2002	As-Filed 02/18/2003	% Change
Residual Oil	3,453,920	5,434,579	57.35%
Distillate Oil	457,612	408,166	-10.81%
Coal	16,616,687	16,792,239	1.06%
Natural Gas	6,039,042	4,543,326	-24.77%
Nuclear	6,094,721	6,110,531	0.26%
Total	32,661,982	33,288,841	1.92%

ATTACHMENT B

Progress Energy Florida, Inc.
Approved Fuel and Purchased Power Cost Recovery Factors
For the Period: April through December 2003

Group	Delivery Voltage Level	Fuel Cost Factors (cents/kWh) Standard	Time Of Use On-Peak	Time Of Use Off-Peak
A.	Distribution Secondary	2.741	3.341	2.481
B.	Distribution Primary	2.714	3.308	2.456
C.	Transmission	2.687	3.275	2.432
D.	Lighting Service	2.642	--	--

Rate Class	Capacity Cost Recovery Factors (cents/kWh)
Residential	1.100
General Service Non-Demand - Secondary	0.825
@Primary Voltage	0.817
@Transmission Voltage	0.809
General Service 100% Load Factor	0.605
General Service Demand - Secondary	0.716
@Primary Voltage	0.710
@Transmission Voltage	0.702
Curtailable - Secondary	0.510
@Primary Voltage	0.505
@Transmission Voltage	0.500
Interruptible - Secondary	0.594
@Primary Voltage	0.588
@Transmission Voltage	0.582
Lighting	0.175