

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for approval to implement consolidated fuel adjustment surcharge by Florida Public Utilities Company. | DOCKET NO. 031135-EI
ORDER NO. PSC-04-0417-PAA-EI
ISSUED: April 22, 2004

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER DENYING PETITION FOR APPROVAL TO IMPLEMENT
CONSOLIDATED FUEL ADJUSTMENT SURCHARGE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

In Docket No. 030438-EI, Florida Public Utilities Company (FPUC or utility) filed a petition for an increase in its rates and charges, and requested that we consolidate the two divisions into a single entity for ratemaking purposes. FPUC provides retail electric service to approximately 27,000 ratepayers in its Northwest division (formerly known as the Marianna division, serving all or parts of Jackson, Calhoun, and Liberty counties) and its Northeast division (formerly known as the Fernandina Beach division, serving part of Nassau county). By Order No. PSC-04-0369-AS-EI, we approved the parties' stipulation to consolidate FPUC's electric rates.

The petition in Docket No. 030438-EI applied only to base rate charges. On September 26, 2003, FPUC filed a petition to consolidate its factors for the energy conservation recovery clause. We approved this request by Order No. PSC-03-1375-FOF-EG, in Docket No. 030002-EG, issued December 4, 2003. Moreover, by Order No. PSC-03-1461-FOF-EI, in Docket No. 030001-EI, issued December 22, 2003, we ruled that FPUC should submit a separate petition to address consolidation of FPUC's fuel and purchased power cost recovery factors (fuel

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adjustment surcharge, fuel rates, or fuel factors) for its two electric divisions, concurrent with revisions to FPUC's base rates at the conclusion of Docket No. 030438-EI. On December 31, 2003, FPUC filed its petition to consolidate its fuel rates, to be effective concurrent with the consolidated base rates' effective date, which is discussed below.

We have jurisdiction over this subject matter pursuant to the provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, 366.06, Florida Statutes.

DENYING PETITION FOR APPROVAL TO IMPLEMENT
CONSOLIDATED FUEL ADJUSTMENT SURCHARGE

Although FPUC considers its Northwest (Marianna) and Northeast (Fernandina Beach) divisions as one entity within its corporate structure, we have historically treated each division separately for regulatory purposes. Prior to the parties' stipulation in Docket No. 030438-EI, each division had its own rate base, capital structure, rate structure, and other regulatory elements. In addition, FPUC has historically filed separate monthly and annual fuel schedules for both divisions.

By Order No. PSC-03-1461-FOF-EI, for FPUC's Northwest division, we established a levelized fuel rate at 2.430¢/kwh to recover approximately \$11,706,000 in projected 2004 fuel expenses and prior years' under-recovery balance. For FPUC's Northeast division, we established a levelized fuel rate at 1.569¢/kwh to recover approximately \$13,835,000 in projected 2004 fuel expenses and prior years' over-recovery balance.

FPUC does not generate any electrical energy for sale to its retail electric ratepayers, but purchases wholesale capacity and associated electrical energy from three wholesale providers: Jacksonville Electric Authority; Jefferson Smurfit Corporation; and Gulf Power Company (wholesale providers). FPUC then re-sells this capacity and energy to its retail ratepayers. FPUC does not transmit any power between the two divisions. In other words, FPUC's contracts with Jacksonville Electric Authority and Jefferson Smurfit Corporation exclusively serve the electricity needs of FPUC's Northeast division's retail ratepayers. Likewise, FPUC's contract with Gulf Power exclusively serves the electricity needs of FPUC's Northwest division's retail ratepayers. The purchased power costs from these wholesale suppliers have historically been significantly different.

FPUC's Reasons for Consolidation

In response to Commission staff discovery in Docket Nos. 030438-EI and 031135-EI, FPUC supports its request by stating that consolidation of its fuel rates would minimize rate shock and minimize regulatory administrative costs. FPUC agrees that temporary rate differences exist which benefit one division and creates subsidies for the other division. However, FPUC believes that the long-term impact of consolidated fuel rates should be equal

and beneficial to all ratepayers. FPUC attributes the difference in the fuel rates between the two divisions, beyond the impact of the true-up from prior years, to timing issues associated with the negotiations of fuel contracts and fuel purchases between the wholesale providers and their fuel suppliers. Through consolidation, FPUC believes that spreading such timing risks over a larger group of ratepayers would yield a smaller per-ratepayer impact, and prevent rate shock.

FPUC also estimates an annual cost savings of \$2,750 due to the reduced workload from making one filing with the Commission, instead of two filings. FPUC also surmises that the parties and staff to Docket No. 040001-EI and subsequent fuel dockets may experience a reduction of 25 to 50 percent in their workload regarding FPUC's filings.

Denying Request for Consolidation

In Docket Nos. 030438-EI and 030002-EG, we approved stipulations regarding the consolidation of base rates and the energy conservation cost recovery clause because of the similarity in costs incurred by the two divisions. Based on the utility's apparent corporate philosophy towards consolidation of its two electric operating divisions, it would seem to be consistent with the decision in those dockets to grant the utility's petition in this docket. However, we find that the facts in this docket fail to justify a similar consolidation.

Our analysis of FPUC's petition indicates that consolidated fuel rates would be unduly discriminatory, and that any regulatory administrative cost savings would be minimal. Subsidies, and, therefore, rate discrimination, are inherent in any rate design. Our staff determined whether the utility's request to consolidate its fuel costs for its Northwest and Northeast divisions would result in subsidies and rates that are unduly discriminatory. Our staff performed a subsidy analysis to determine the level of subsidies, if any, that would arise from the approval of the utility's consolidation request (see Attachment A, incorporated herein by reference). We find that, based on the analysis of subsidies using FPUC-estimated 2004 values, the resulting consolidated rates would be unduly discriminatory.

We have consistently encouraged jurisdictional utilities to minimize their regulatory administrative costs. However, such cost minimization efforts should not create an unreasonable subsidy among ratepayers. Moreover, the cost savings on a per-ratepayer basis are minimal (i.e., approximately 10.2¢ per ratepayer per year). In addition, FPUC's base rates support these costs; therefore, its shareholders would benefit from these cost savings. Finally, we expect that annual cost savings for the Commission to be minimal, because consolidating FPUC's fuel rates would not change the amount of data that we would analyze and audit.

In summary, we find it appropriate to deny FPUC's instant petition, without prejudice, because consolidated fuel rates would be unduly discriminatory, and any regulatory administrative cost savings would be minimal.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utilities Company's petition to implement a consolidated fuel adjustment surcharge is hereby denied without prejudice. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if no timely protest is received from a substantially affected person within 21 days of the date of the Proposed Agency Action (PAA) Order, upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order.

By ORDER of the Florida Public Service Commission this 22nd day of April, 2004.

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

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

JSB

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 that is available under Section 120.57, 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 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.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 13, 2004.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

FLORIDA PUBLIC UTILITIES COMPANY
 DOCKET NO. 031135-EI
 PETITION FOR CONSOLIDATED FUEL ADJUSTMENT

Schedule 1
 Page 1

**SUBSIDY ANALYSIS:
 BASED ON FPUC'S ESTIMATES**

NORTHWEST DIVISION

<u>Line No.</u>	<u>Description</u>	<u>Total Period (6)</u>
(A)	Energy Cost + Adj Demand Cost Recovery	\$0.0394060
(1)	KWH Sold to Residential Customers	141,466,583
(2)	Number of Residential Customers	9,885
(3) = (1) / [(2)*12]	Average KWH per Bill per Residential Customer	1,193
(4) = (3) * (A)	Average KWH \$ per Residential Customer	\$47.00

NORTHEAST DIVISION

<u>Line No.</u>	<u>Description</u>	<u>Total Period (6)</u>
(A)	Energy Cost + Adj Demand Cost Recovery	\$0.0332693
(1)	KWH Sold to Residential Customers	202,706,750
(2)	Number of Residential Customers	12,980
(3) = (1) / [(2)*12]	Average KWH per Bill per Residential Customer	1,301
(4) = (3) * (A)	Average KWH \$ per Residential Customer	\$43.30

CONSOLIDATED

<u>Line No.</u>	<u>Description</u>	<u>Total Period (6)</u>
(A)	Energy Cost + Adj Demand Cost Recovery	\$0.0358526
(5) = NW (A) * NW (3)	Average KWH per Bill per Northwest Residential Cust	\$42.76
(5) = NE (A) * NE (3)	Average KWH per Bill per Northeast Residential Cust	\$46.66

(6): Energy cost + adj demand cost recovery expressed in \$ per KWH.

FLORIDA PUBLIC UTILITIES COMPANY
 DOCKET NO. 031135-EI
 PETITION FOR CONSOLIDATED FUEL ADJUSTMENT

Schedule 1
 Page 2

**SUBSIDY ANALYSIS:
 BASED ON FPUC'S ESTIMATES**

NORTHWEST DIVISION

<u>Line No.</u>	<u>Description</u>	<u>Total Period (6)</u>	<u>Consolidated Residential Bill</u>	<u>Northwest Pays (Recvs) Resid Subsidy</u>
(A)	Energy Cost + Adj Demand Cost Recovery	\$0.0394060		
(1)	KWH Sold to Residential Customers	141,466,583		
(2)	Number of Residential Customers	9,885		
(3) = (1) / [(2)*12]	Average KWH per Bill per Residential Customer	1,193		
(4) = (3) * (A)	Average KWH \$ per Residential Customer	\$47.00	\$42.76	(\$4.24)

NORTHEAST DIVISION

<u>Line No.</u>	<u>Description</u>	<u>Total Period (6)</u>	<u>Consolidated Residential Bill</u>	<u>Northeast Pays (Recvs) Resid Subsidy</u>
(A)	Energy Cost + Adj Demand Cost Recovery	\$0.0332693		
(1)	KWH Sold to Residential Customers	202,706,750		
(2)	Number of Residential Customers	12,980		
(3) = (1) / [(2)*12]	Average KWH per Bill per Residential Customer	1,301		
(4) = (3) * (A)	Average KWH \$ per Residential Customer	\$43.30	\$46.66	\$3.36

(6): Energy cost + adj demand cost recovery expressed in \$ per KWH.

Source: Florida Public Utilities Company, Docket No. 031135-EI, Petition; Docket No. 030001-EI, Exhibit 21; Docket No. 030438-EI, Schedule E-17 supplemental.