

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 080001-EI
ORDER NO. PSC-08-0472-PCO-EI
ISSUED: July 22, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

ORDER GRANTING FLORIDA PUBLIC UTILITIES COMPANY'S
PETITION FOR MID-COURSE CORRECTION

BY THE COMMISSION:

Background

On June 13, 2008, Florida Public Utilities (FPUC or Company) filed a Petition for Approval of Mid-course Correction. Concurrently with its petition, FPUC also filed the testimony of Witness Mark Cutshaw in support of the Company's proposed mid-course correction to its fuel cost recovery factor. We had previously approved the fuel cost recovery factor for FPUC by Order No. PSC-08-0030-FOF-EI, issued January 8, 2008, in Docket No. 070001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

FPUC requests the mid-course correction following the procedure set out in Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI and Docket No. 840003-GU, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor; In re: Purchased gas cost recovery clause, and in Order No. PSC-98-0691-FOF-PU, issued May 19, 1998, in Docket No. 980269-PU, In re: Consideration of change in frequency and timing of hearing for the fuel and purchased power cost recovery clause, capacity cost recovery clause, generating performance incentive factor, energy conservation cost recovery clause, purchased gas adjustment (PGA) true-up, and environmental cost recovery clause, and Order No. PSC-07-0333-PAA-EI, issued April 16, 2007, in Docket No. 070001-EI.

Mid-course corrections are part of the fuel proceeding. They are considered preliminary procedural decisions. We take testimony regarding those costs in our November hearing. Any over-recoveries or under-recoveries caused by or resulting from the new factor adopted by the mid-course correction may be included in the following year's fuel factor. Our jurisdiction to

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consider fuel clause proceedings derives from our authority to set fair and reasonable rates, Section 366.05, Florida Statutes.

FPUC's Petition

Order No. PSC-07-0333-PAA-EI¹ clarified that we require each investor-owned electric utility (IOU) to notify us when its revenue estimate less its fuel-and-purchased-power expense estimate is ten percent or greater than its recovery-period revenues (mid-course percent). Revenues minus expenses are represented by the utility's estimated December End-of-Period Total Net True-up, and includes the difference (revenues less expenses) accumulated late in the prior year, and interest. Revenues are represented by period-total estimated Jurisdictional Fuel Revenue Applicable to Period (Table 1). We reviewed FPUC's 2008 "F1" (Fernandina Beach Division) and "M1" (Marianna Division) Schedules and confirmed FPUC's December 2008 calculations. In keeping with Order No. PSC-07-0333-PAA-EI, the terms "over-recovery" and "under-recovery" refer to the estimated true-up amounts including the 2007 true-up and 2008 interest (Table 1). The under-recovery amounts are estimates for the end of 2008. FPUC under-estimated both divisions' December 2007 true-up amounts. At the end of 2007 and in early 2008, both divisions were "over-recovered," with positive monthly true-ups. The Marianna Division was over-recovered through March. FPUC estimates that the Fernandina Beach Division will remain over-recovered through July, after which time it will be under-recovered. Thus, for both divisions, FPUC estimates that the monthly balances of the under-recovery will decline through 2008.

Ordinarily, the IOUs petition for mid-course cost recovery factor revisions when mid-course percentages are 10 percent or greater. FPUC's estimated December 2008 under-recovery percents amount to 8.91 percent (Fernandina Beach Division) and 6.02 percent (Marianna Division). FPUC has petitioned for recovery factor revisions to reduce the estimated 2008 under-recoveries to zero dollars (estimated) by year's end. By approving FPUC's mid-course correction proposal, FPUC's 2008 actual/estimated true-ups will be lower, which in turn means that FPUC's 2009 fuel cost recovery factors will be lower as well. In a 2000 case similar to this one, we approved a mid-course correction of less than 10 percent for Progress Energy Florida (PEF, formerly Florida Power Corporation), which PEF petitioned for based on similar reasoning.²

¹ See Order No. PSC-07-0333-PAA-EI, issued on April 16, 2007, in Docket No. 070001-EI, In Re: Fuel and purchased power cost recovery with generating performance incentive factor.

² See Order No. PSC-00-1081-PCO-EI, issued on June 5, 2000, in Docket No. 000001-EI, In Re: Fuel and purchased power cost recovery with generating performance incentive factor.

Table 1		
2008 Estimated True-up Components and Amounts		
May 2008 Mid-Course Petition		
Florida Public Utilities Company		
<u>Component</u>	<u>Fernandina Beach</u> <u>Division</u>	<u>Marianna</u> <u>Division</u>
2007 Final True-up	\$949,245	\$442,219
2008 Under Recovery	-2,792,020	-1,903,744
2008 Interest	-822	-22,498
Estimated December 2008 End-of-Period Total Net True-up	-\$1,843,597	-\$1,484,023
Jurisdictional Fuel Revenue Applicable to 2008	\$20,694,778	\$24,631,959
2008 Mid-Course Percent	8.91%	6.02%
Sources: Schedules M1 and F1 in the June 13, 2008, Mid-course Petition		

FPUC petitioned for an increase to its cost recovery factors from 4.591 cents per kilowatt hour (kWh) to 5.647 cents per kWh (Fernandina Beach Division) and from 4.711 cents per kWh to 5.242 (Marianna Division), beginning July 29, 2008. FPUC's final recovery factors for all rate classes recover purchased power demand costs as well as fuel costs. Attachment A shows the total for the newly approved mid-course correction fuel factors (for recovering demand costs as well as fuel costs) and FPUC's 2008 factors in effect prior to this order for all rate classes. Based on FPUC's testimony filed in its mid-course correction petition, these new factors will eliminate the above-estimated 2008 under-recovery amounts if FPUC's estimated costs and revenue estimates are accurate.

FPUC states that its Marianna Division fuel cost under-recovery is due primarily to decreased megawatt hour (mWh) sales. Marianna Division has reduced its 2008 mWh sales estimate by 8.8 percent (31,132 mWhs), as shown in Table 2. FPUC's sales estimates used in the calculations of the approved mid-course corrections are identical to the sales estimate used in setting FPUC's base rates earlier this year in Docket No. 070304-EI (see Order No. PSC-08-0327-FOF-EI, issued May 19, 2008). Marianna Division purchases power from Gulf Power Company (Gulf). Marianna Division pays fixed monthly demand charges to Gulf, throughout the year, based on its historical maximum demand. To collect a fixed number of dollars through the sale of 8.8 percent fewer kWhs, Marianna Division must raise its per kWh demand charge. Marianna Division expects its 2008 per kWh demand cost to rise by 0.503 cent from 3.199 cents to 3.702 cents. Also, in its 2008 projection filing, Marianna Division based its demand estimate on information that was updated after the 2007 fuel hearing. This newer estimate of peak demand, which is the basis for the 2008 demand charges paid to Gulf, also contributed to the under-recovery of demand costs. In addition, Marianna Division expects a slight increase (0.065 cents per kWh) in purchased power cost. Table 2 shows the estimated/actual per kWh costs, per the May 2008 mid-course petition, versus the estimated per kWh costs, per the 2008 projection filing.

FPUC states that its Fernandina Beach Division's under-recovery is primarily due to increased fuel cost charged by its supplier. Fernandina Beach Division purchases power from Jacksonville Electric Authority (JEA). JEA charges Fernandina Beach Division for the fuel cost of generation and purchased power. JEA has notified Fernandina Beach Division of a July 2008 rate increase to cover increases in fuel and purchased power costs. Fernandina Beach Division expects its 2008 per kWh fuel cost to rise by 1.093 cents per kWh, from 6.200 cents per kWh to 7.293 cents per kWh. Fernandina Beach Division expects demand charges paid to JEA to decrease slightly. Table 2 shows the proposed per kWh costs. In its mid-course petition, Fernandina Beach Division decreased its mWh sales estimate by 10.32 percent (35,378 mWhs).

Table 2 Change in Estimated 2008 MWh's, Fuel per kWh, and Demand per kWh 2008 Projection Filing (Estimated) versus 2008 Mid-Course Filing (Estimated/Actual) Florida Public Utilities Company						
	Marianna Division			Fernandina Beach Division		
	Estimated (1)	Estimated/Actual (2)	Difference	Estimated (1)	Estimated/Actual (2)	Difference
MWhs	354,771	323,638	-31,133 or -8.8%	342,846	307,468	-35,378 or -10.3%
Fuel Cents per kWh	4.429	4.494	0.065	6.200	7.293	1.093
Demand Cents per kWh	3.199	3.702	0.503	3.099	2.826	-0.273
Sources: (1) January – December Schedule E-1 in FPUC's 2008 Projection Filing (2) 2008 Schedules M1 and F1 in FPUC's June 2008 Mid-course Filing						

The monthly 1,000 kWh residential bill will increase by \$12.32 (10.89 percent) to \$123.45 in the Marianna Division. For the Fernandina Beach Division, the monthly 1,000 kWh residential bill will increase by \$15.38 (15.22 percent), to \$116.44.

Table 3 below shows the recent trend in FPUC's fuel factors and 1,000 kWh residential bills.

Table 3 Trend for FPUC's Fuel Factors and Residential Bills								
		Apr-Dec 2004	2005	2006	Jan-Sept 2007	Oct-Dec 2007	2008 Current	2008 FPUC Approved
Fernandina Beach Division	Levelized Fuel Cost Recovery Factor, ¢/kWh	1.569	2.326	1.851	3.412	4.494	4.591	5.647
Fernandina Beach Division	Residential 1,000 kWh Bill, \$	55.08	62.22	58.52	77.98	90.13	101.06	116.44
Marianna Division	Levelized Fuel Cost Recovery Factor, ¢/kWh	2.430	2.681	2.815	2.709	3.583	4.711	5.242
Marianna Division	Residential 1,000 KWH Bill, \$	66.49	69.56	71.26	70.29	79.81	111.13	123.45

Source: Orders approving factors issued in December/January for 2004-2008, Mid Course Petition Schedules EI and June 13, 2008, direct testimony of Witness Mark Cutshaw

The increases in bills in recent years are due to the expiration of very favorable long-term purchased power contracts with Gulf and JEA at the end of 2007, and also because of FPUC's rate case. We approved a new purchased power contract for Fernandina Beach Division with JEA in Docket No. 060001-EI.³ The cost of the new contract with JEA is reflected in Fernandina Beach Division's 2007 fuel factors. We approved a new purchased power contract for Marianna Division in Docket No. 070108-EI.⁴ For Marianna Division, the new purchased power contract is reflected in the 2008 fuel factors. Effective October 2007, we granted FPUC a midcourse correction in Docket No. 070001-EI.⁵ FPUC's current 2008 bills reflect the increase in FPUC's base rates which we granted in Docket No. 070304-EI.⁶ The revised base rates went into effect May 22, 2008, and increased the 1,000 kWh residential bills for both divisions by \$6.63.

³ See Order No. PSC-06-1057-FOF-EI, issued on December 22, 2006, in Docket No. 060001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

⁴ See Order No. PSC-07-0476-PAA-EI, issued on June 6, 2007, in Docket No. 070108-EI, In re: Petition for approval of agreement for generation services and related terms and conditions with Gulf Power Company for Northwest Division (Marianna) beginning 2008, by Florida Public Utilities Company.

⁵ See Order No. PSC-07-0739-PCO-EI, issued September 17, 2007, in Docket No. 070001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

⁶ See Order No. PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Petition for rate increase by Florida Public Utilities Company.

With past mid-course corrections, we considered the stability of fuel factors within the year and between years (e.g. Order No. PSC-03-0382-PCO-EI, Page 9). We have previously noted that stable annual fuel factors are important for customers because stable factors give customers more certainty in planning their expenditures for electricity. However, several issues are in tension with the concept of rate stability.⁷

If fuel and purchased power costs vary significantly from original estimates, then fuel factors will be less representative of costs and customers will not receive accurate price signals regarding the cost of electricity. In the case of actual and estimated fuel and purchased power costs being higher than original estimates, an under-recovery will result and, if not corrected, will affect the calculation of subsequent year fuel factors. In times of rising fuel prices, such an under-recovery can compound the rate impact because the subsequent year's fuel factors would reflect both the higher fuel prices and the prior year's under-recovery. In addition, interest would accrue on the under-recovery. Another aspect of deferred under-recoveries is the concept of intergenerational inequity. If a cost is deferred, even a year or portion of a year, a slightly different set of customers will be charged for collection of the costs incurred.

Consideration of a mid-course change to fuel factors involves balancing the goals of achieving a stable annual fuel factor with the goal of sending accurate price signals to customers. Consistent with past orders, it is appropriate that we consider the rate effects and bill impacts for not only the remaining months of the current year but also for the next calendar year.

Neither of FPUC's suppliers has given notice of any changes in fuel or demand charges for 2009 as of July 1, 2008. However, FPUC expects: 1) that fuel prices will increase further in 2008 and into 2009; 2) the price increases will affect Gulf's and JEA's fuel costs; and 3) Gulf and JEA's increased fuel costs will be passed on to FPUC and its customers. FPUC wishes to avoid having its customers risk having to pay for the estimated 2008 under-recoveries in 2009 along with possible increased fuel costs next year.

We note three things regarding 2009's fuel costs. First, as we reference the 2008 recovery factors from the 2007 fuel hearing,⁸ we must recognize that we are now recommending revising those factors. We probably know less about 2009's actual fuel prices in June 2008 than we knew about 2008's actual fuel prices in November 2007. Second, Marianna Division's power supplier, Gulf, petitioned us on June 19, 2008, for a mid-course correction to its 2008 fuel cost recovery factor with an estimated 2008 under-recovery true-up of 0.658 cents per kWh. Gulf's jurisdictional cents per kWh and its wholesale cents per kWh are the same ratio each month. To the extent that Gulf's under-recoveries affect its jurisdictional customers and wholesale customers similarly, Marianna Division's customers can expect to incur a purchased power cost increase in 2009. Third, Fernandina Beach Division does not expect that JEA's 2009 fuel costs will be lower than the 2008 mid-course estimates. Fernandina Division has requested

⁷ For a discussion of rate stability, see Order No. PSC-98-0691-FOF-PU, page 4. For a discussion of the impacts of deferrals and mid-course corrections, see Order No. PSC-03-0382-PCO-EI, pages 8 and 9.

⁸ See Order No. PSC-06-0030-PAA-EI, issued on January 8, 2008, in Docket No. 070001-EI, In Re: Fuel and purchased power cost recovery with generating performance incentive factor.

2009 fuel cost information from JEA in preparation for its 2009 projection filing, which it will file in September 2009. Based on the best information now available, JEA expects that October-through-December fuel costs will remain in effect into 2009. JEA's generation is 75 percent coal and petroleum coke, 15 percent natural gas, and 10 percent nuclear.

While FPUC's rates have increased significantly during the past few years, primarily due to the expiration of very favorable long term purchase power contracts, the proposed mid-course corrections for both Fernandina Beach Division and Marianna Division are related to unavoidable fuel price increases as well as sales decreases which we recognized in FPUC's recent rate proceeding. While we could defer the collection of some portion of FPUC's estimated 2008 costs to 2009 fuel factors, we find it would not be in the best interest of FPUC's ratepayers to do so. Such action appears likely to result in a further increase in rates in 2009, above the proposed mid-course correction factors, based on the best information available at this time. In addition, allowing the cost to be recovered per FPUC's proposed mid-course correction would send customers accurate price signals and would avoid customer interest payments associated with deferral of cost recovery.

Ruling

Upon consideration, we approve FPUC's petition for mid-course corrections to its authorized cost recovery factors to collect its estimated 2008 under-recoveries for its Fernandina Beach Division (\$1,843,597) and its Marianna Division (\$1,484,023) before 2009. We approve FPUC's proposed rate class cost recovery factors shown in Attachment A. By beginning collection of the 2008 fuel cost increases in August 2008, the 2009 recovery factors are expected to be less than if customers waited until 2009 to pay for the actual and estimated increases in costs. We have tested the reasonableness and accuracy of FPUC's proposal and find that FPUC's proposal is reasonable. However, mid-course corrections are procedural matters raised in the fuel docket prior to the issuance of the final fuel order. Requests for mid-course corrections require expedited review. FPUC still must file testimony in the fuel docket to support its re-projected and actual expenses. Our staff will continue to conduct discovery on the actual and estimated expenditures of FPUC and if additional corrections are necessary, they will be addressed at our fuel hearing in November.

Effective Date

FPUC has requested an effective date of August 2008. The first billing cycle day for August is July 29, 2008. In other words, customers whose meters are read on or after July 29, 2008 will be billed under the new recovery factors. An effective date of July 29, 2008, ensures that all customers are billed under the new factors for the same amount of time.

FPUC has notified its customers of its proposed mid-course correction through a direct mailing on June 25, 2008. The June 25 mailing date ensures that customers receive a 30-day notice that fuel factors may change on July 29, 2008. Specifically, the notice will state FPUC's proposed total amount for each division, the effective date of the proposed cost recovery factors, and the impact on a 1,000 kWh residential bill. FPUC proposes to include details of the Commission's decision in customers' August bills.

Providing customers with a 30-day notice period prior to implementing new fuel factors as a result of a mid-course correction is consistent with our past decisions.⁹ Providing 30-days' notice allows customers the opportunity to adjust their usage in light of the new factors. Accordingly, we approve FPUC's effective date of the revised cost recovery factors as July 29, 2008.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utilities Commission's Petition for Mid-course Correction is granted. It is further

ORDERED that the effective date of the new rates is July 29, 2008. It is further

ORDERED that this docket is a continuing docket and shall remain open.

By ORDER of the Florida Public Service Commission this 22nd day of July, 2008.



ANN COLE
Commission Clerk

(S E A L)

LCB

⁹ See Order No. PSC-07-0739-PCO-EI, issued September 17, 2007, in Docket No. 070001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

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 Office of Commission Clerk, 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 4		
Fuel Cost Recovery Factors by Rate Schedule		
Fernandina Beach Division		
<u>Rate Schedule</u>	<u>Current Fuel Cost Recovery Factor (c/kWh)</u>	<u>Approved Fuel Cost Recovery Factor (c/kWh)</u>
RS – First 1,000 kWh	6.628	8.128
RS – Above 1,000 kWh	7.628	9.128
GS	6.811	8.225
GSD	6.481	7.840
GSLD	6.533	7.901
OL	5.005	6.083
SL	4.961	6.135

Table 5		
Fuel Cost Recovery Factors by Rate Schedule		
Marianna Division		
<u>Rate Schedule</u>	<u>Current Fuel Cost Recovery Factor (c/kWh)</u>	<u>Approved Fuel Cost Recovery Factor (c/kWh)</u>
RS – First 1,000 kWh	7.610	8.811
RS – Above 1,000 kWh	8.610	9.811
GS	7.840	8.945
GSD	7.483	8.522
GSLD	7.151	8.128
OL	6.097	6.870
SL	6.146	6.910