

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 090001-EI
ORDER NO. PSC-09-0254-PCO-EI
ISSUED: April 27, 2009

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 TAMPA ELECTRIC COMPANY'S
PETITION FOR MID-COURSE CORRECTION

BY THE COMMISSION:

Background

On March 5, 2009, Tampa Electric Company (TECO or Company) filed a Petition for Modification to its Fuel and Purchased Power Cost Recovery Factors. The current fuel factors were approved by Commission Order No. PSC-08-0824-FOF-EI, issued December 22, 2008, in Docket 080001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

TECO requests the mid-course correction to its fuel factors following the procedure established by 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 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, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

The petition is based on the outlook for fuel prices as of February 9, 2009. The Company is requesting that the decrease in its fuel factors become effective on May 7, 2009.

Mid-course corrections are used by us between fuel hearings whenever costs deviate from revenues by a significant margin. In Order No. 13694, we established "a procedure by which the

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utilities would notify [us] that their collections of projected fuel costs were going to be either over-recovered or under-recovered by 10 [percent].” By Order No. 13694, we made it a requirement that for any six-month recovery period, a utility must give us written notice when the utility becomes aware that its projected fuel revenues were either over- or under-recovered in excess of 10 percent of its projected fuel costs for the period.¹ Failure to do so could result in our disallowing the utility from collecting interest on any portion of the under-recovery in excess of 10 percent.

Mid-course corrections are part of the fuel and purchased power cost recovery clause (fuel clause) proceeding. They are preliminary procedural decisions. We take testimony regarding those costs in its 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 consider fuel clause proceedings derives from our authority to set fair and reasonable rates, in Section 366.05, Florida Statutes (F.S.). The fuel clause proceedings are exempted from the rulemaking provisions of Section 120.80(13)(a), F.S.

TECO’s Petition

TECO based its original 2009 fuel cost projections on the outlook for fuel prices as of October 3, 2008. Since then, natural gas and fuel oil prices have trended downward. In its mid-course petition filing, TECO reprojected costs for each fuel type, purchased power, and power sold based on the fuel price outlook as of February 9, 2009. Table 1 below details the over-recovery which would result from continuing to use the current factors, by source of kilowatt-hour (kWh) sales.

1	Coal	\$56,408,524
2	Residual Oil	(54,258)
3	Distillate Oil	6,699,330
4	Natural Gas	6,190,241
5	Nuclear Fuel	0
6	Non-fuel Generation	1,104
7	Power Sold	16,755,656
8	Purchased Power	24,610,932
9	Qualifying Facilities	25,214,323
10	Economy Energy	67,334,261
11	Unbilled Sales, T&D Losses, and Company Use	0
12	Wholesale kWh Sales	(9,588,526)
13	Jurisdictional kWh Sales	193,571,589
14	Revenue Adjustment for Rate Class Consumption	(1,898,517)
15	Unrefunded True-up and GPIF for 2009	(1,454,985)
16	Line Loss Correction	(198)
17	Total 2009 Estimated Over-Recovery	\$190,217,890

¹ At the time of Order No. 13694, fuel hearings were held every six months.

TECO estimates that its current fuel factors will cause an over-recovery of \$190,217,890. The over-recovery percentage is 18.84 percent, which is over the 10 percent threshold specified in Order No. PSC-07-0333-PAA-EI, issued April 16, 2007, in Docket No. 070001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor. We note that if a company reaches the 10 percent threshold, the order requires the company to provide notice to us.

The primary reason for the estimated over-recovery is the decline in natural gas prices. The decrease in natural gas prices lowers TECO's expected cost of generation and decreases reliance on purchased power. Based on TECO's proposed mid-course correction for fuel factors, the fuel component of the residential 1,000 kWh bill would decrease by \$11.78.

In addition, in paragraph 10 of its petition, TECO requested that the final 2008 true-up over-recovery amount of \$35,402,527 (\$35 million) be deferred until and included in its 2010 fuel adjustment factors in order to mitigate uncertainty in natural gas pricing and sales forecasts. TECO asserted that this approach was consistent with its past mid-course correction filings.

Decision

We note that in past mid-course corrections, we have deferred under-recoveries in fuel costs to a later period. This deferral resulted in a lower immediate bill impact for customers, and these deferred amounts affected fuel factors in a subsequent period. In this instance, TECO is proposing to defer an over-recovery, which delays savings to customers.

We note that the natural gas price outlook for the remainder of 2009 is low in comparison with the past few years. A reversal in gas prices could cause TECO to have an under-recovery in fuel costs for 2009, which would be reflected on bills for 2010. TECO believes the \$35 million over-recovery final 2008 true-up, if excluded from the mid-course calculation, could act as a buffer or "hedge" against a possible rebound in gas prices at some time during 2009.

As part of TECO's explanation for retaining the \$35 million, TECO explained that the \$35 million would act as a rate smoothing mechanism in 2010. TECO supplied estimates of under-recovery in other clauses. In TECO's 2008 final true-ups for the capacity cost recovery clause and the environmental cost recovery clause, TECO has under-recoveries of \$8,525,166 and \$8,112,993, respectively. TECO asserts that this could lead to increases in the cost recovery factors for those clauses in 2010.

We are not aware of a case in which we used an over-recovery in one clause to offset an under-recovery in another clause. However, by Order No. PSC-07-0333-PAA-EI, we stated the following:

The notification of a ten-percent estimated over- or under-recovery must include a petition for cost-recovery factor correction, or include an explanation why a mid-course correction is not practical. In determining whether a mid-course correction is practical, an IOU may consider such things as the potential correction's estimated magnitude and the correction's timing. An IOU may also consider

possible offsets between fuel- and capacity-cost over/under recoveries. With or without offsets between the fuel- and capacity-cost over/under recoveries, notice of a plus-or-minus ten percent estimated over- or under-recovery for either clause is required.

Order No. PSC-07-0333-PAA-EI, issued April 16, 2007, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor, p. 5. While our statement above appears to favor TECO's treatment of the \$35 million over-recovery from 2008, there are policy considerations that support including the over-recovery in the mid-course correction to 2009 fuel factors.

First, fuel costs are much more volatile than the costs in the capacity and environmental clauses. For example, natural gas prices were as high as \$13 per million Btus (MMBtu) in July 2008 and currently are below \$5 per MMBtu. The outlook, i.e., the forward curve of futures prices, for gas prices for 2009 has declined dramatically starting in August 2008. The \$35 million final 2008 true-up is a certain amount, and by including it in the mid-course correction, we recognize that a significant shift in gas prices occurred.

Second, regarding the use of the \$35 million as a "hedge" against a turnaround in gas prices, we note that TECO has an approved fuel price hedging program in place. Further, TECO reprojected its fuel costs as of February 9, 2009, and gas prices for the remainder of 2009 have continued to decline. This, in effect, is a partial built-in "hedge" against a rebound in gas prices.

Conclusion

We approve a mid-course correction to TECO's fuel factors, with the appropriate calculation of those factors including the \$35 million 2008 final true-up for the fuel clause. The approved factors are shown in Attachment A. The 2009 over-recovery of \$190,217,890, combined with this 2008 final true-up of \$35,402,527, and estimated interest of \$591,581, totals \$226,211,998. The total 2009 true-up estimate is 18.84 percent of TECO's estimated revenue applicable to 2009, \$1,200,533,025. Based on the approved mid-course correction for fuel factors, the fuel component of the residential 1,000 kWh bill would decrease by \$16.17, or approximately 25 percent. The effect on residential bills is detailed in Attachment B. We note that the bill calculation also includes the charges that were approved at the April 7, 2009, Agenda Conference in Docket No. 080317-EI, In Re: Petition for rate increase by Tampa Electric Company. Table 2 below shows the calculations.

TABLE 2: TOTAL ESTIMATED 2009 TRUE-UP	
True-up Component	Amount
2008 Final True-up	\$35,402,527
Estimated 2009 Over-Recovery	190,217,890
Estimated 2009 Interest	591,581
Total Estimated 2009 True-up	\$226,211,998

The new projections are an appropriate reflection of the current outlook for fuel prices. We find that timely correction of a large under-recovery or over-recovery is fair and reasonable, and that it should result in more accurate fuel factors and a smaller December 2009 end-of-period true-up. We will continue to monitor the fuel price outlook for 2009 and conduct discovery on the actual and estimated expenditures for TECO. We will conduct a thorough review of costs in preparation for the November 2009 fuel hearing.

Effective Date

TECO has requested that the revised fuel factors become effective May 7, 2009, concurrent with when the Company's base rates, energy conservation cost recovery, environmental cost recovery, and capacity cost recovery factors, approved in Docket No. 080317-EI, become effective. TECO will notify its customers of the changes to its fuel factors through an insert in the April customer bills.

We find that TECO's proposed effective date is appropriate and it therefore is approved.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Tampa Electric Company's petition for mid-course correction, as modified herein to include the final 2008 true-up over-recovery of \$35,402,527, plus interest, is approved. It is further

ORDERED that the revised fuel factors shall be effective May 7, 2009. It is further

ORDERED that, because the Fuel and Purchased Power Cost Recovery Clause docket is an ongoing docket, it shall remain open.

By ORDER of the Florida Public Service Commission this 27th day of April, 2009.



ANN COLE
Commission Clerk

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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 Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, 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.

Approved fuel factors for the period May 7 – December 2009

METERING VOLTAGE LEVEL	FACTOR (CENTS PER KWH)
Secondary Residential Only	
Tier I: First 1,000 kWh	4.799
Tier II: Amount Over 1,000 kWh	5.799
Secondary	5.149
Distribution Primary	5.098
Transmission	5.046
Lighting Service ¹	4.937
Distribution Secondary On-Peak	6.309
Distribution Secondary Off-Peak	4.655
Distribution Primary On-Peak	6.246
Distribution Primary Off-Peak	4.608
Transmission On-Peak	6.183
Transmission Off-Peak	4.562
¹ Lighting service is based on distribution secondary, 17 percent on-peak and 83 percent off-peak.	

Tampa Electric Company					
Residential Bill Comparison					
For Monthly Usage of 1,000 KWH					
	Current Jan 09 - Apr 09	Projected (excluding \$35 million) May 09- Dec 09	Projected (including \$35 million) May 09- Dec 09	Difference	
				\$	%
Base Rate Revenue	\$51.92	\$53.37	\$53.37	\$1.45	3%
Fuel Recovery Revenue	64.16	50.52	47.99	(16.17)	-25%
Conservation Revenue	1.06	2.21	2.21	1.15	108%
Capacity Revenue	5.80	5.41	5.41	(0.39)	-7%
Environmental Revenue	2.29	2.23	2.23	(0.06)	-3%
Florida Gross Receipts Tax Revenue	3.21	2.92	2.85	(0.36)	-11%
TOTAL REVENUE	\$128.44	\$116.66	\$114.06	-\$14.38	-11%