FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building

101 East Gaines Street

Tallahassee, Florida 32399-0850

M E M O R A N D U M

April 8, 1993

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF ELECTRIC AND GAS [BASS]

DIVISION OF LEGAL SERVICES [BROWN]

RE : DOCKET NO. 930001-EI - FUEL AND PURCHASED POWER COST RECOVERY CLAUSE AND GENERATING PERFORMANCE INCENTIVE FACTOR

AGENDA: 4/20/93 - CONTROVERSIAL AGENDA - PROPOSED AGENCY ACTION -PARTIES MAY PARTICIPATE

PANEL: FULL COMMISSION

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS:I:\PSC\EAG\WP\930001.RCM

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CASE BACKGROUND

On October 2, 1992, Staff conducted a workshop to consider and hear comments from investor-owned utilities regarding the feasibility of holding fuel and purchased power cost recovery hearings annually instead of semi-annually. The workshop was attended by representatives from Florida Power Corporation, Florida Power & Light Company, Tampa Electric Company, Gulf Power Company, Florida Public Utilities Company and Florida Industrial Power Users Group. The utilities were asked to provide written comments to issues addressed during the workshop. These comments have been incorporated into this recommendation whenever practicable.

DISCUSSION OF ISSUE

ISSUE: Should the Commission approve a change in the frequency of fuel and purchased power cost recovery hearings from semi-annually to annually?

RECOMMENDATION: Yes. The Commission should approve the change to annual hearings.

STAFF ANALYSIS: Staff is proposing to change the frequency of the fuel and purchased power cost recovery hearings from semi-annually to annually. The goal of the proposed change is to reduce the time and dollars spent during the preparation for and attendance at cost recovery proceedings, thereby producing savings that will benefit utility ratepayers. Under Staff's proposal, the Commission would consider the recovery of fuel costs, purchased power costs, oil-backout costs, capacity costs and generating performance incentives during a two-day hearing in August of each year. A time-line depicting the cost recovery periods, including the transition period, is attached as Exhibit 1.

Staff believes there are substantial benefits to be derived from a change to annual hearings. A reduction in the number of days scheduled for hearings will not only free up Commissioners' time, but Staff and company employees' time as well. As stated by Gulf Power Company, affected company employees could better utilize the time pursuing other company interests, and the ratepayers would save the incremental costs (airfare, hotel, meals, etc.) related to an additional hearing. There also would be lower administrative and legal expenses associated with preparing and filing projections annually versus semi-annually. All such savings would directly benefit ratepayers.

The utilities that submitted written comments subsequent to the workshop are generally in agreement with the change to annual hearings. Florida Power & Light Company does not believe however that there will be any overall benefits resulting from a reduction in the frequency of fuel cost recovery proceedings. The company asserts that the probability of encountering large over/under recoveries is greatly enhanced by the extended time between projections. Staff agrees that there is a probability that this could occur, but with the extension of the cost recovery period, there is also the probability that the accumulation of over/under recoveries could be offset during the extended period. Florida Power & Light Company asserts that any benefits from the change would be outweighed by the amount of unplanned mid-course corrections that would probably occur. Florida Power & Light Company states that during the past 12 years, the company has had to file 9 mid-course corrections and 4 supplemental filings under the current system. A review of Commission orders reveals that since 1982, Florida Power Corporation has requested mid-course corrections three times, Gulf Power Company and Tampa Electric Company have each requested one mid-course correction and Florida Public Utilities Company has not requested a mid-course correction. Staff submits that the frequency of Florida Power & Light Company's request for mid-course corrections is not typical of the other investor-owned electric utilities.

Gulf Power Company indicated that it supports an annual fuel recovery period, but it would prefer that that recovery period be April through March instead of October through September. The company explains that the schedule of filing fuel projections in January is more consistent with the completion of Gulf's fuel budgeting process and would allow the company to utilize the most current information available to prepare its fuel cost projections for the following period. While Staff agrees that it is preferable to use the most current information, . One reason favoring the August hearing dates is that the methodology used to calculate a price for transactions between Florida Power Corporation and its affiliate, Powell Mountain Coal Company, uses FERC Form 423 data which is not available until at least April of each year. The appropriate market price is then considered at the August fuel hearings. If the fuel hearings were held in February of each year, there would be a ten-month delay between the company incurring fuel costs and the Commission's approval of recovery of those costs. Another reason favoring the August dates is the timing of implementation of this change. Because the change in the conservation cost recovery clause requires a change in a Commission rule, implementation of an annual conservation cost recovery hearing would be delayed until August 1994. Implementation of an annual fuel and purchased power cost recovery hearing would be delayed until February 1994. Although the delays would not cause insurmountable problems, Staff would like the annual hearings to be implemented as soon as possible.

Florida Public Utilities Company indicated it did not object to changing the current filing requirements from six months to one year subject to the following condition. The company would like to be able to file two independent six-month levelized factors to reflect the difference in seasonal costs. Staff sees no problem in allowing companies to file seasonal factors. However, the filing of seasonal factors should be optional for all the companies.

Florida Power Corporation conurs with Staff's proposed schedule for implementing annual hearings in August 1993 for fuel, purchased power and capacity cot recovery. Tampa Electric Company did not submit written comments subsequent to the workshop.

The mid-course correction procedure would not change with a change in the frequency of cost recovery hearings. It was suggested by two companies that the variance percentage should be increased from 10% to 15%. Gulf Power Company suggested that the percentage remain at 10% stating that any greater percentage may cause large fluctuations in the fuel factor in order to adjust for the over\underrecovery in subsequent periods. Any lesser percentage may cause a utility to unnecessarily adjust for a variance that later in the recovery period may correct itself or could be handled through the true-up mechanism. Staff agrees and recommends that the threshold percentage remain at 10%.

A change in the frequency of cost recovery hearings will require a change in the forms filed by the utilities. If the change is approved by the Commission, Staff recommends that a workshop be conducted to discuss revisions and modifications to fuel, purchased power, capacity cost, oil-backout cost and generating performance incentive factor forms.