



Public Service Commission

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DATE: FEBRUARY 22, 2001

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF SAFETY AND ELECTRIC RELIABILITY (BOHRMANN)
DIVISION OF ECONOMIC REGULATION (E. DRAPER)
DIVISION OF LEGAL SERVICES (C. KEATING)

RE: DOCKET NO. 010001-EI - FUEL AND PURCHASED POWER COST RECOVERY CLAUSE AND GENERATING PERFORMANCE INCENTIVE FACTOR.

AGENDA: 03/06/01 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\SER\WP\010001T.RCM
Attachment B not included in electronic version

CASE BACKGROUND

In Docket No. 840001-EI, by Order No. 13694, issued September 20, 1984, the Commission required each investor-owned electric utility to notify the Commission when its projected fuel revenues 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 the Commission may order on its own motion, a mid-course correction to the utility's authorized fuel cost recovery factors.

On February 9, 2001, Tampa Electric Company (Tampa Electric or TECO) notified the Commission that it currently anticipates that the fuel factors approved by Order No. PSC-00-2385-FOF-EI, in Docket No. 000001-EI, issued December 12, 2000, will result in an under-recovery greater than 10 percent. To address this under-

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recovery, TECO petitioned for approval of a mid-course correction to its fuel cost recovery factors, effective from the first billing cycle of April, 2001, until modified by a subsequent Commission order.

TECO's under-recovery consists of two parts: (1) a \$23.1 million final under-recovery for 2000; and (2) a \$63.2 million estimated under-recovery for 2001. TECO has requested that the Commission authorize TECO to change its fuel cost recovery factors to collect 50 percent of its estimated 2001 under-recovery from April through December, 2001. TECO would defer collecting the remaining 50 percent of its estimated 2001 under-recovery and 100 percent of its final 2000 under-recovery until 2002.

ISSUE 1: Should the Commission approve a mid-course correction to Tampa Electric Company's (TECO) authorized fuel and purchased power cost recovery factors to collect 50 percent of its estimated \$63.2 million under-recovery for 2001?

RECOMMENDATION: Yes. The Commission should approve TECO's petition for a mid-course correction to collect 50 percent (\$31.6 million) of its estimated \$63.2 million under-recovery for 2001. This approval would avoid a more severe rate impact that will result if collection of the under-recovery is deferred until 2002. Any over-recovery that TECO collects due to the proposed fuel cost recovery factors will be refunded to TECO's ratepayers with interest. (BOHRMANN, E. DRAPER)

STAFF ANALYSIS: Based on updated projections for 2001, TECO estimates an under-recovery of fuel and purchased power costs of \$63.2 million (16 percent) for 2001. This under-recovery exceeds the 10 percent threshold to request a mid-course correction as described by Order No. 13694. Thus, TECO requests a change in its fuel cost recovery factors to collect 50 percent of its estimated 2001 under-recovery amount in order to mitigate the rate impact on its retail ratepayers during 2002.

Review Process

In its current analysis, staff examined whether the assumptions that TECO used to support its re-projected costs appear reasonable. This review process is consistent with staff's past recommendations on mid-course corrections. Staff will continue to conduct discovery in this docket and raise any issues concerning TECO's fuel and purchased power costs at the November 20-21, 2001, hearing scheduled for this docket or at such other time as is appropriate.

TECO uses these updated assumptions to develop future cost and revenue estimates. During the scheduled November 20-21, 2001, hearing in this docket, the Commission can compare these estimates to actual data. The Commission can then apply the difference to next year's fuel cost recovery factor through the its normal true-up process. Any over-recovery that TECO collects due to the proposed fuel cost recovery factors will be refunded to TECO's ratepayers with interest.

TECO's Reasons for Mid-Course Correction

TECO states in its petition for a mid-course correction that the estimated \$63.2 million under-recovery amount is primarily due to higher natural gas prices, and to a lesser extent, higher oil prices. These market conditions are described at length in staff's February 22, 2001, recommendation regarding FPL's February 2, 2001, petition for a mid-course correction filed in this docket. These higher fuel prices, in turn, placed upward pressure on purchased power and generation costs. These prices were originally projected and applied in Denise Jordan's direct testimony, prefiled September 21, 2000, in Docket No. 000001-EI. Attachment A compares TECO's forecasts of its average 2001 prices for natural gas, residual oil, distillate oil, coal, and power purchased and sold as filed September 21, 2000, in Docket No. 000001-EI and February 9, 2001, in its petition for a mid-course correction in this docket.

Reasonableness of TECO's Assumptions

Staff compared the data and assumptions that TECO relied upon to support its September 21, 2000, filing in Docket No. 000001-EI and its February 2, 2001, filing in Docket No. 010001-EI. TECO's assumptions for retail energy load, system net generation, system efficiency, and unit dispatch did not change enough to make a material difference in TECO's estimated under-recovery.

Fuel and purchased power prices did increase substantially as reflected in the supporting schedules of TECO's petition for a mid-course correction compared with its September 21, 2000, filing in Docket No. 000001-EI. Although fuel costs increased up to 60 percent (i.e., natural gas), the increase in fuel cost for system net generation represents less than 25 percent of its estimated under-recovery for 2001 with net wholesale energy transactions (purchased power costs minus power sales revenue) comprise the remainder. TECO expects the price for wholesale energy purchases (measured in \$/MWH) to increase by approximately 34 percent, but TECO expects revenues from wholesale energy sales to fall by more than four percent. Staff will continue to analyze TECO's wholesale energy transactions, and raise any necessary issues at the November 20-21, 2001, hearing scheduled in this docket.

Impact of Mid-Course Correction on TECO's Ratepayers

TECO has proposed to collect 50 percent of its estimated under-recovery for 2001, while deferring the remaining 50 percent of its estimated 2001 under-recovery and 100 percent of the final 2000 under-recovery until 2002. The proposed fuel cost recovery factors by TECO rate schedule are shown on Attachment B, page 1 of 2. If the Commission approves TECO's petition for a mid-course correction, the typical residential ratepayer's monthly bill for 1,000 kwh would increase by \$3.29 (3.89 percent) to \$87.76 in 2001 (Refer to Attachment B, page 2 of 2).

If the Commission does not approve TECO's proposed mid-course correction, TECO estimates that its typical monthly residential bill (1,000 kwh) for 2002 would rise \$5.78 from current levels to \$90.25. If the Commission approves TECO's proposed mid-course correction, TECO estimates that its typical residential bill for 2002 would only rise \$4.12 from current levels to \$88.59. These estimates for the typical residential bill for 2002 assume no change in TECO's capacity, energy conservation, and environmental cost recovery factors. Regardless of the Commission's decision regarding TECO's petition, staff anticipates TECO will seek recovery of its \$23.1 million final 2000 under-recovery and at least 50 percent of its \$63.2 million 2001 estimated under-recovery during the November 21-22, 2001, hearing scheduled in this docket. Staff believes that the proposed mid-course correction would thus mitigate the rate impact that would occur if TECO deferred collecting the under-recovery until 2002.

The amount of interest that TECO's ratepayers would pay on its estimated under-recovery amount may decrease. Consistent with Order No. 9273, in Docket No. 74680-CI, issued March 7, 1980, TECO's ratepayers pay interest on any under-recovery at the commercial paper rate. The commercial paper rate that TECO used to calculate the interest on its December 31, 2000, under-recovery balance was 6.58 percent. According to TECO, its ratepayers may avoid approximately \$1.1 million in interest payments through 2002 if the Commission authorizes TECO to collect its estimated under-recovery in 2001 instead of 2002.

Summary

Staff recommends approval of TECO's petition for mid-course correction for four reasons. First, the assumptions that TECO has used to determine its estimated under-recovery amount appear reasonable. Second, the mid-course correction may mitigate the rate impact of collecting its estimated under-recovery during 2002. Third, the mid-course correction may reduce the interest expense that TECO's ratepayers would pay on its estimated under-recovery balance. Fourth, the mid-course correction would allow TECO to recover the additional fuel and purchased power costs that TECO is likely to incur in a timely manner.

ISSUE 2: If the Commission approves TECO's petition for a mid-course correction to TECO's fuel cost recovery factors, what should be the effective date of the mid-course correction?

RECOMMENDATION: If the Commission does not approve staff's recommendation in Issue 1, this issue is moot. If the Commission approves staff's recommendation in Issue 1, the effective date should be April 3, 2001. (BOHRMANN, E. DRAPER, C. KEATING)

STAFF ANALYSIS: TECO has requested an effective date beginning with the first billing cycle in April 2001, which falls on April 3, 2001. Although this effective date falls 3 days short of the customary 30-day notice requirement for rate increases, staff believes such treatment is reasonable. Staff believes that due to the magnitude of the under-recovery, it is important that the new factors be implemented as soon as possible. The April 3, 2001, effective date will also insure that all customers are billed under the new rates for the same amount of time.

The Commission has 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. Most recently, at the February 6, 2001, Agenda Conference, the Commission approved mid-course corrections for each investor-owned natural gas utility to become effective on the date of the Commission vote.

The Commission did require a 30-day notice in Order No. PSC-00-1081-PCO-EI, issued June 5, 2000, which granted FPL's, FPC's, and TECO's petitions for mid-course corrections last year. The Commission found that providing customers with the full 30 days' notice in this instance was appropriate. The Commission 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 only 3 days.

Due to the magnitude of the increase staff believes that TECO should notify its ratepayers in writing of the Commission approved fuel cost recovery factors. TECO should mail the notice to its customers as soon as possible after today's agenda. Such information should include, but not be limited to: the total dollar amount of the mid-course correction, the impact on typical

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ratepayer's monthly bill, and the effective date of the proposed fuel cost recovery factors.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No. (C. KEATING)

STAFF ANALYSIS: The Fuel and Purchased Power Cost Recovery clause is an on-going docket and should remain open.

Change in TECO's 2001 Delivered Fuel Price Forecast (\$/MMBtu, except for power purchased and sold)			
	As-Filed (09/21/00)	As-Filed (02/09/01)	Change
Natural Gas	\$4.00	\$6.40	60.00%
Residual Oil	\$3.78	\$5.14	35.98%
Distillate Oil	\$5.60	\$5.95	6.25%
Coal	\$1.78	\$1.87	4.47%
Purchased Power (\$/MWH)	\$41.01	\$55.03	34.19%
Power Sold (\$/MWH)	\$30.96	\$29.60	-4.39%

TAMPA ELECTRIC COMPANY
FUEL ADJUSTMENT FACTORS BY RATE CLASS
APRIL 2001 - DECEMBER 2001

<u>Group</u>	<u>Rate Schedule</u>	<u>Fuel Cost Factors (cents/kWh)</u>		
		<u>Standard</u>	<u>Time Of Use</u>	
			<u>On-Peak</u>	<u>Off-Peak</u>
A.	RS, GS, TS	2.830		
A1.	SL-2, OL-1&3	2.585		
B.	GSD, GSLD, SBF	2.823		
C.	IS-1&3, SBI-1&3	2.761		
A.	RST, GST		3.941	2.346
A1.	SL-2, OL-1&3		N/A	N/A
B.	GSDT, EV-X, GSLDT, SBFT		3.931	2.340
C.	IST-1&3, SBIT-1&3		3.845	2.289

RESIDENTIAL FUEL FACTORS FOR THE PERIOD: April 2001 - December 2001

NOTE: This schedule reflects a midcourse correction in the fuel factors for Florida Power & Light, Florida Power Corporation, and Tampa Electric Company effective April 2001.

02/08/01

		Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2)	
						Marianna	Fernandina Beach
Present (cents per kwh):	January 2001 - March 2001	2.931	2.524	2.509	1.842	3.859	3.464
Proposed (cents per kwh):	April 2001 - December 2001	3.667	2.885	2.830	1.842	3.859	3.464
	Increase/Decrease:	0.736	0.361	0.321	0.000	0.000	0.000

TOTAL COST FOR 1,000 KILOWATT HOURS - RESIDENTIAL SERVICE

PRESENT: January 2001 - March 2001		Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2)	
						Marianna	Fernandina Beach
Base Rate		43.26	49.05	51.92	42.20	20.43	19.20
Fuel		29.31	25.24	25.09	18.42	38.59	34.64
Energy Conservation		1.81	2.09	1.14	0.53	0.56	0.38
Environmental Cost Recovery		0.08	N/A	1.65	0.96	N/A	N/A
Capacity Recovery		5.27	11.08	2.56	2.08	N/A	N/A
Gross Receipts Tax (1)		0.82	2.24	2.11	0.66	1.53	0.56
Total		\$80.55	\$89.70	\$84.47	\$64.85	\$61.11	\$54.78

PROPOSED: April 2001 - December 2001		Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2)	
						Marianna	Fernandina Beach
Base Rate		43.26	49.05	51.92	42.20	20.43	19.20
Fuel		36.67	28.85	28.30	18.42	38.59	34.64
Energy Conservation		1.81	2.09	1.14	0.53	0.56	0.38
Environmental Cost Recovery		0.08	N/A	1.65	0.96	N/A	N/A
Capacity Recovery		5.27	11.08	2.56	2.08	N/A	N/A
Gross Receipts Tax (1)		0.89	2.34	2.19	0.66	1.53	0.56
Total		\$87.98	\$93.41	\$87.76	\$64.85	\$61.11	\$54.78

PROPOSED INCREASE / (DECREASE)		Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2)	
						Marianna	Fernandina Beach
Base Rate		0.00	0.00	0.00	0.00	0.00	0.00
Fuel		7.36	3.61	3.21	0.00	0.00	0.00
Energy Conservation		0.00	0.00	0.00	0.00	0.00	0.00
Environmental Cost Recovery		0.00	0.00	0.00	0.00	0.00	0.00
Capacity Recovery		0.00	0.00	0.00	0.00	0.00	0.00
Gross Receipts Tax (1)		0.07	0.10	0.08	0.00	0.00	0.00
Total		\$7.43	\$3.71	\$3.29	\$0.00	\$0.00	\$0.00

(1) Additional gross receipts tax is 1% for Gulf, FPL and FPUC-Fernandina Beach. FPC, TECO and FPUC-Marianna have removed all GRT from their rates, and thus entire 2.5% is shown separately. (2) Fuel costs include purchased power demand costs of 1.655 for Marianna and 1.589 cents/KWH for Fernandina allocated to the residential class.