REVISED 3/9/01

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: MARCH 9, 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: 03/13/01 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

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

CASE BACKGROUND

By Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI, 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 approve on its own motion, a mid-course correction to the utility's authorized fuel cost recovery factors. On January 26, 2001, Florida Power & Light Company (FPL) notified the Commission that it currently anticipates 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 of greater than 10 percent. On February 2, 2001, FPL petitioned for approval of a mid-course correction to its fuel

cost recovery factors, effective from April 2, 2001, until modified by a subsequent Commission order.

Staff believes that the Commission's decisions on Issue 1 (2000 under-recovery) and Issue 2 (2001 under-recovery)are separate and independent of each other. Jurisdiction over this matter is vested in the Commission by several provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06, Florida Statutes.

At the March 6, 2001, Agenda Conference, a Commissioner proposed that all under-recovery amounts from 2000 that FPL is not collecting through its current fuel cost recovery factors should be the amount included in FPL's mid-course correction for the period April, 2001, through December, 2001. This Commissioner asked staff what impact this proposal would have on FPL's 2002 fuel cost recovery factors. Because staff did not consider this proposal in its recommendation, the Commission deferred action on FPL's petition for a mid-course correction until the March 13, 2001, Agenda Conference. Staff's analysis of this proposal is attached to this recommendation as Attachment C. Staff also corrected the two minor errors noted at the March 6, 2001, Agenda Conference. In this revised recommendation, staff has made no other changes to its recommendation filed February 22, 2001.

ISSUE 1: Should the Commission approve a mid-course correction to Florida Power & Light Company's (FPL) authorized fuel and purchased power cost recovery factors to collect FPL's actual $76.8 million under-recovery for 2000?

RECOMMENDATION: Yes. The Commission should approve FPL's petition for a mid-course correction to collect FPL's actual $76.8 million under-recovery for 2000. This approval would mitigate the rate impact of FPL collecting this amount during 2002. (BOHRMANN, C. KEATING)

STAFF ANALYSIS: Based on actual results through December 2000, FPL states that it experienced a $76.8 million final under-recovery for 2000. The final $76.8 million underrecovery for 2000 is primarily due to an approximate $77.0 million (3.4 percent) increase compared with projections in Jurisdictional Fuel Costs & Net Power Transactions offset by an approximate $1.4 million variance compared with projections in Jurisdictional Fuel Revenues. The balance is $1.2 million in interest.

FPL states that the $77 million variance in Jurisdictional Fuel Costs and Net Power Transactions is primarily due to a $109 million (5.4 percent) increase compared with projections in Fuel Cost of System Net Generation, plus a $9.8 million (17.3 percent) increase compared with projections in Energy Cost of Economy Purchases plus a $5.9 million (4.0 percent) increase compared with projections in Purchased Power. These amounts are offset by a $24.5 million increase compared with projections in Fuel Cost of Power Sold, a $16.9 million increase compared with projections in projected Revenues from Off-System Sales, and $6.2 million in Adjustments to Fuel Cost compared with projections.

FPL states that the reason for the $109 million variance in Fuel Cost of System Net Generation was a large unexpected short-term increase in demand for both oil and natural gas during the last two months of 2000. In the short term, demand for these fuels is primarily dependent upon the weather. According to the National Climatic Data Center, the last two months of 2000 were the coldest November and December in 105 years nationwide. As natural gas prices rose, many electric utilities switched from natural gas-fired generation to oil-fired generation, when possible. These actions increased oil demand which placed upward pressure on oil prices.

By Order No. 13694, issued September 20, 1984, the Commission established the guidelines for a mid-course correction to its fuel

cost recovery factors. At page 6, the order states in pertinent part:

> [w]hen a utility becomes aware that its projected fuel revenues applicable to a given six-month recovery period will result in an over- or under-recovery in excess of 10 percent of its projected fuel costs for the period, the utility shall so advise the Commission through a filing promptly made (emphasis added).

When the Commission moved to annual, calendar year fuel cost recovery factors, the Commission expressly adopted the mid-course correction guidelines set forth in Order No. 13694. See Order No. PSC-98-0691-FOF-PU, issued May 19, 1998. These guidelines do not refer to an actual over- or under-recovery during a historical period, such as the 2000 period in this case. Although the Commission has not expressly addressed the question, it is arguable that these guidelines were not intended to allow an historical period under-recovery to be collected through a mid-course correction. The Commission did allow FPL to recover its final 1999 under-recovery as part of its mid-course correction in 2000. See Order No. PSC-00-1081-PCO-EI, issued June 5, 2000.

For the reasons set forth below, staff believes the Commission should authorize FPL in this instance to collect its final 2000 under-recovery through this mid-course correction.

First, unlike the estimated 2001 under-recovery amount, FPL's $76.8 million final 2000 under-recovery represents the difference between actual costs incurred and revenues received. Although unaudited, staff believes these actual fuel revenues and costs from 2000 have a higher degree of certainty than the projected fuel revenues and costs for 2001. Staff will commence an audit of FPL's 2000 fuel revenues and costs in the normal course of this docket. The Commission can address any audit findings which result in a dollar adjustment to the fuel clause in the November 20-21, 2001 hearing scheduled for this docket. Second, recovery of the $76.8 million final under-recovery commencing in April 2001, instead of January 2002, would be consistent with the basic principle of ratemaking which seeks to match the incurrence of costs with their recovery. If FPL had not filed a petition for approval of a mid-course correction, FPL would have collected the $76.8 million final under-recovery plus interest in 2002.

ISSUE 2: Should the Commission approve a mid-course correction to Florida Power & Light Company's (FPL) authorized fuel and purchased power cost recovery factors to collect FPL's projected $431.5 million under-recovery in 2001?

RECOMMENDATION: Yes. The Commission's approval of a mid-course correction to collect FPL's projected $431.5 million under-recovery for 2001 will avoid a more severe rate impact that will result if collection of the under-recovery is deferred until 2002. Any over-recovery that FPL collects due to the proposed fuel cost recovery factors will be refunded to FPL's ratepayers with interest. (BOHRMANN, E. DRAPER)

STAFF ANALYSIS: Based on updated projections for 2001, FPL estimates an under-recovery of $431.5 million (19 percent) for 2001. This estimated under-recovery exceeds the 10 percent threshold as described by Order No. 13694 to request a mid-course correction. Thus, FPL requests a change in its fuel cost recovery factors for the 2001 under-recovery amount to avoid a more severe rate impact on its retail ratepayers during 2002.

Review Process

In its analysis of FPL's petition for a mid-course correction, staff examined whether the assumptions (i.e., fuel prices, retail energy sales, generation mix, and system efficiency) that FPL used to support its re-projected fuel costs appear reasonable. This standard of review 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 FPL'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

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

FPL's Reasons for Mid-Course Correction

FPL states in its petition for a mid-course correction that the estimated $431.5 million under-recovery amount is primarily due to higher natural gas prices, and to a lesser extent, higher oil prices. These prices were originally projected in Gerard Yupp's direct testimony and applied in Korel Dubin's direct testimony, both prefiled September 21, 2000, in Docket No. 000001-EI. Table 1 in Attachment A compares FPL's forecasts of the average 2001 prices for natural gas, residual oil, and distillate oil as filed on September 21, 2000, in Docket No. 000001-EI, and on February 2, 2001, in its petition for a mid-course correction in this docket.

FPL provides two reasons for the higher oil and natural gas prices for 2001. First, an appreciable short-term increase in demand for both oil and natural gas occurred during the last two months of 2000 as described in Issue 1. Suppliers withdrew oil and natural gas from storage to meet the additional demand. These unreplenished withdrawals left storage levels for both fuels significantly below historic levels. The lower storage levels increased the volatility of both oil and natural gas prices. As natural gas prices rose, many electric utilities switched from natural gas-fired generation to oil-fired generation, when possible. These actions increased oil demand. During the past month, prices have drifted downward, but are still well above historical levels.

Second, while oil and natural gas demand increased sharply, an insufficient supply of both fuels was available to meet the additional demand. One reason for limited supply increases was a reduction in exploration and production activity. When natural gas prices were below $2.00 per MMBtu and oil prices were near $10 per barrel approximately two years ago, the exploration and production companies curtailed their activities for both fuels because the low prices did not adequately reward these companies for the associated costs and risks. FPL has cited other factors which have limited increases in the supply of oil and natural gas, such as a reduction in oil imports from OPEC member-nations and a delay in receiving natural gas imports from Canada.

FPL's Efforts to Mitigate Its Fuel Costs

FPL states that it employs several methods to mitigate the impact of higher fuel costs. First, FPL can partially mitigate the natural gas price increases by increasing generation at FPL's other generating units that do not burn natural gas, to the extent

available capacity exists at these units. FPL's current generation assets are divided approximately equally among nuclear, oil-fired, and natural gas-fired generation with the remainder comprised of coal-fired generation and purchased power.

Second, FPL is minimizing its use of natural gas by using the "fuel-switching" capabilities of several generating units to burn oil instead of natural gas. Excluding its nuclear units, FPL estimates that 68 percent of its generation capacity can switch between oil and natural gas. Based on FPL's assumptions, staff estimates that FPL may reduce its total fuel costs by approximately $100 million in 2001 through its fuel-switching capabilities.

Third, FPL engages in two types of wholesale energy transactions to mitigate its purchased power costs. Because coal continues to be a low cost fuel, FPL is purchasing wholesale energy from coal-fired generating units to reduce consumption of oil and natural gas on FPL's system. Also, FPL is selling wholesale energy from its oil-fired generating units to utilities at a price which results in a net benefit to FPL's ratepayers. If these wholesale energy sales are less than one year, FPL credits the generation-related gains from these sales to its fuel clause per Order No. PSC-99-2512-FOF-EI, in Docket No. 990001-EI, issued December 22, 1999.

Fourth, FPL states that it has engaged in two additional types of transactions to minimize its fuel costs. When FPL can purchase oil and natural gas at prices lower than expected future prices plus storage costs, FPL often purchases these fuels in quantities greater than its immediate demand for electric generation. FPL then stores the excess oil and natural gas for later use. Staff notes that FPL does not recover any costs through the fuel clause until the fuel is burned or consumed in FPL's generating units per Order No. 6357, in Docket No. 74680-CI, issued November 26, 1974. Also, FPL has entered into bilateral transactions with customized pricing mechanisms with fuel suppliers. These transactions provide oil and natural gas to FPL at market prices or lower to the benefit of FPL ratepayers.

Reasonableness of FPL's Assumptions

Staff compared the data and assumptions that FPL relied upon to support its September 21, 2000, filing in Docket No. 000001-EI and its February 2, 2001, filing in this docket. One of FPL's assumptions did not change -- retail energy sales remained 89,259,918 MWH. However, three sets of FPL's assumptions did change: fuel price forecast; system efficiency; and unit dispatch.

Table 2 in Attachment A compares FPL's revised forecast of natural gas commodity prices with the futures prices that existed on the New York Mercantile Exchange (NYMEX) at the close of trading on February 2, 2001, (i.e., the day FPL filed its mid-course correction petition) for the period March 2001 through December 2001. Staff also conducted the same comparison for distillate oil, as Table 3 in Attachment A illustrates. In addition, staff compared FPL's 2001 residual oil price forecast to the 2001 residual oil price estimate listed in the U.S. Energy Information Administration's (EIA) Short Term Energy Outlook for February 2001. Staff used EIA's estimate because NYMEX has not created a futures market for residual oil. FPL's 2001 residual oil price estimate is $4.12/MMBtu compared with EIA's residual oil price estimate of $4.03/MMBtu. Based on these comparisons, staff believes FPL's natural gas commodity, residual oil, and distillate oil price forecasts are reasonable for purposes of the proposed FPL mid-course correction.

Table 4 in Attachment A shows that FPL's forecasted system efficiency fell by approximately 4.5 percent. However, staff believes this drop in system efficiency can be explained by the increased oil-fired generation planned for 2001. Because less efficient oil-fired generation now represents a larger share of 2001 total generation compared with FPL's earlier filing, FPL's weighted average system efficiency decreased from 9,574 Btu/kwh to 10,002 Btu/kwh.

Table 5 in Attachment A shows the changes in FPL's forecast of net generation by fuel type for the filings FPL made on September 21, 2000, and February 2, 2001. As discussed previously, FPL has several generating units on its system that can burn oil or natural gas, whichever fuel is less expensive at any given time. Also, as natural gas prices increase relative to oil prices, more oil-fired generating units are economically dispatched ahead of natural gas-fired generating units. Based on the expected fuel prices for the remainder of 2001, FPL's forecast of net generation by fuel type is reasonable for purposes of the proposed FPL mid-course correction.

Finally, staff compared the impact of both FPL's natural gas price forecast to NYMEX futures prices to FPL's system as a final test for reasonableness. System costs calculated based on FPL's natural gas price forecast was approximately $60 million less compared with system costs based on the NYMEX futures prices for January 10, 2001 (i.e., near the maximum price for natural gas on NYMEX during the past three months). However, as the NYMEX futures market for natural gas closed on February 21, 2001 (i.e., last trading day before staff filed this recommendation), FPL's system

costs based on its natural gas price forecast was $33 million more costly than system costs based on NYMEX futures prices. These comparisons show the dynamic nature of the natural gas market. For purposes of the mid-course correction, staff still believes that FPL's natural gas price forecast is reasonable.

Impact of Mid-Course Correction on FPL's Ratepayers

FPL has proposed to collect the estimated under-recovery for 2001 and the final under-recovery for 2000 from April through December, 2001. The proposed fuel cost recovery factors by FPL rate schedule are shown on Attachment B, page 1 of 2. If the Commission approves FPL's petition for a mid-course correction, the typical residential ratepayer's bill for 1,000 kwh would increase by $7.43 (9.2 percent) to $87.98 (Refer to Attachment B, page 2 of 2).

If the Commission does not approve FPL's proposed mid-course correction, staff estimates that FPL would seek to recover approximately $3.51 billion through the fuel clause during 2002. This $3.51 billion estimate is comprised of the following assumptions: projected 2002 fuel costs are equal to projected 2001 fuel costs ($2.73 billion); the $508 million under-recovery that FPL currently projects for 2000 and 2001 materializes; $259 million under-recovery from 2000 that the Commission deferred to 2002 by Order No. PSC-00-2385-FOF-EI, in Docket No. 000001-EI, issued December 12, 2000; and $10 million in amortization costs from the Okeelanta/Osceola settlement payment that the Commission deferred to 2002 in Docket No. 000982-EI, by Order No. PSC-00-1913-PAA-EI, issued October 19, 2000. Therefore, FPL's ratepayers would collectively pay approximately $1.2 billion more in 2002 that FPL is not recovering in its current fuel cost recovery factors. Staff believes that the proposed mid-course correction would thus mitigate the rate impact of FPL collecting the under-recovery during 2002.

The amount of interest that FPL's ratepayers would pay on the under-recovery amount will decrease. Consistent with Order No. 9273, in Docket No. 74680-CI, issued March 7, 1980, FPL's ratepayers pay interest on any under-recovery at the commercial paper rate. The commercial paper rate that FPL used to calculate the interest on its December 31, 2000, under-recovery balance was 6.58 percent. According to FPL, its ratepayers would avoid approximately $24 million in interest payments through 2002 if the Commission authorizes FPL to collect the under-recovery in 2001 instead of 2002.

Summary

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

ISSUE 3: If the Commission approves FPL's petition, in whole or in part, for a mid-course correction to FPL'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 recommendations in Issues 1 and 2, this issue is moot. If the Commission approves staff's recommendations in Issue 1, Issue 2, or both, the effective date should be April 2, 2001. (BOHRMANN, E. DRAPER, C. KEATING)

STAFF ANALYSIS: FPL has requested an effective date beginning with the cycle 3 billings in April 2001, which falls on April 2, 2001. Although this effective date falls four 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 2, 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 four days.

Due to the magnitude of the increase staff believes that FPL should notify its ratepayers in writing of the Commission approved fuel cost recovery factors. FPL 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 ratepayer's monthly bill, and the effective date of the proposed fuel cost recovery factors.

ISSUE 4: 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.

Table 1: Change in FPL's 2001 Delivered Fuel Price Forecast ($/MMBtu)			
	As-Filed (09/21/00)	As-Filed (02/02/01)	Change
Natural Gas	$4.73	$6.91	46.09%
Residual Oil	$3.69	$4.12	11.65%
Distillate Oil	$5.14	$5.95	15.76%

Table 2: FPL Monthly Natural Gas Commodity Price Compared to NYMEX ($/MMBtu)				
Month in 2001	FPL 02/02/01 Petition Natural Gas Price	NYMEX 02/02/01 Natural Gas Price	Difference	Percent Difference
March	$8.64	$6.74	$1.90	28.13%
April	$6.24	$5.91	$0.33	5.53%
May	$5.58	$5.57	$0.01	0.13%
June	$5.49	$5.54	($0.05)	-0.96%
July	$5.47	$5.56	($0.09)	-1.67%
August	$5.46	$5.57	($0.11)	-2.03%
September	$5.39	$5.53	($0.14)	-2.50%
October	$5.39	$5.52	($0.13)	-2.41%
November	$5.47	$5.60	($0.13)	-2.29%
December	$5.66	$5.71	($0.05)	-0.81%

Table 3: FPL Monthly Distillate Oil Price Compared to NYMEX ($/MMBtu)				
Month in 2001	FPL's 02/02/01 Petition Distillate Oil Price	NYMEX 02/02/01 Distillate Oil Price	Difference	Percent Difference
March	$5.33	$5.91	($0.58)	-9.81%
April	$5.41	$5.67	($0.26)	-4.59%
May	$5.43	$5.47	($0.04)	-0.73%
June	$5.53	$5.36	$0.17	3.17%
July	$5.57	$5.32	$0.25	4.70%
August	$5.86	$5.57	$0.29	4.95%
September	$6.30	$5.53	$0.77	13.92%
October	$6.35	$5.52	$0.83	15.04%
November	$6.36	$5.60	$0.76	13.57%
December	$6.65	$5.71	$0.94	16.46%

Table 4: FPL's Forecasts of System Efficiency (Btu/kwh)		
	As-filed (09/21/00)	As-Filed (02/02/01)
Residual Oil	10,066	10,082
Distillate Oil	13,751	13,231
Coal	10,228	10,228
Natural Gas	8,026	8,182
Nuclear	10,149	10,823
Weighted Average	9,574	10,002

Table 5: FPL's System Net Generation (GWH) by Fuel Type			
	As-Filed 09/21/2000	As-Filed 02/02/2001	% Change
Residual Oil	27,822	35,722	28.39%
Distillate Oil	362	441	21.82%
Coal	6,853	6,858	0.07%
Natural Gas	21,511	13,935	-35.22%
Nuclear	23,776	23,776	0.00%
Total	80,323	80,732	0.51%

FPL - FUEL ADJUSTMENT FACTORS BY RATE CLASS
APRIL 2001-DECEMBER 2001

GROUP	RATE SCHEDULE	AVERAGE FACTOR	FUEL RECOVERY LOSS MULTIPLIER	FUEL RECOVERY FACTOR
A	RS-1,GS-1, SL-2	3.660	1.00198	3.667
A-1	SL-1,OL-1, PL-1	3.599	1.00198	3.606
B	GSD-1	3.660	1.00191	3.667
C	GSLD-1 & CS-1	3.660	1.00077	3.663
D	GSLD-2,CS-2, OS-2 & MET	3.660	0.99503	3.642
E	GSLD-3 & CS-3	3.660	0.95800	3.506
A	RST-1,GST-1			
	ON-PEAK	3.948	1.00198	3.956
	OFF-PEAK	3.533	1.00198	3.540
B	GSDT-1 CILC-1(G)			
	ON-PEAK	3.948	1.00191	3.955
	OFF-PEAK	2.798	1.00191	3.540
C	GSLDT-1 & CST-1			
	ON-PEAK	3.948	1.00077	3.951
	OFF-PEAK	3.533	1.00077	3.536
D	GSLDT-2 & CST-2			
	ON-PEAK	3.948	0.99503	3.928
	OFF-PEAK	3.533	0.99503	3.515
E	GSLDT-3,CST-3 CILC-1(T)& ISST-1(T)			
	ON-PEAK	3.948	0.95800	3.782
	OFF-PEAK	3.533	0.95800	3.385
F	CILC-1(D)& ISST-1(D)			
	ON-PEAK	3.948	0.99431	3.925
	OFF-PEAK	3.533	0.99431	3.513

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	Florida Public Utilities Co. (2) 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	Florida Public Utilities Co. (2) 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	Florida Public Utilities Co. (2) 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	Florida Public Utilities Co. (2) 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.

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State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: March 9, 2001
TO: Chairman Jacobs
Commissioner Deason
Commissioner Jaber
Commissioner Baez
Commissioner Palecki
FROM: Division of Safety and Electric Reliability (Bohrmann) TB WBM
Division of Economic Regulation (Wheeler, Draper) EJD SLS RMD
Division of Legal Services (Keating) WDK DAW RUE JDJ
RE: Florida Power & Light Fuel Cost Recovery Rate Impacts - Docket No. 010001-EI (Fuel and Purchased Power Cost Recovery)

As requested at the March 6, 2001 Agenda Conference, staff is providing the attached spreadsheets which show the residential customer bill impacts of deferring a portion of Florida Power & Light Company's (FPL) estimated 2001 under-recovery amounts until 2002. Attachment 1 shows rate impacts based on a Commissioner's proposed Alternative Mid-Course Correction, which assumes a portion ($172.5 million) of the estimated 2001 under-recovery amounts are deferred until 2002. It also shows the rate impacts of the FPL Proposed Mid-Course Correction, which assumes no such deferrals. Staff met with the parties after the March 6, 2001, Agenda Conference and obtained rate impact data from FPL at about noon on Thursday, March 8, 2001.

Staff was asked to show the projected rate impacts taking into account the effects of all known under-recovery amounts. Please note there are additional FPL under-recovery amounts incorporated into the rate calculations shown in the attachments, including a $43.4 million January, 2001 under-recovery (above the January under-recovery amount estimated by FPL in its proposed mid-course correction) due to exceptionally high electric usage when natural gas prices peaked that month and $9.0 million in interest associated with the deferral of a portion of the 2001 under-recovery. Attachment 2 contains these amounts.

The rate impact of deferring a portion of 2001 costs to 2002 depends in large part on assumptions for 2002, such as fuel prices, normal weather conditions, and plant availabilities. The price of natural gas may decrease as more wells become operational. On the other hand, prices could increase due to additional natural gas-fired combined-cycle units in the United States being brought on line in 2002 or the impact of severe national weather. Because of this fuel price uncertainty, Attachment 1 shows two scenarios for 2002 rate impacts: one based on fuel prices in 2002 using FPL's 2002 fuel price forecast and the other based on fuel prices in 2002 using FPL's 2001 fuel price forecast.

At the March 6, 2001, Agenda Conference, Commissioners requested information showing the impact of a smaller 2001 under-recovery on 2002 rates. FPL calculated the rate impact in 2002 of each $100 million difference between the current estimated 2001 under-recovery and the actual under-recovery to be $1.13 per 1000 KWH for residential customers.

The rate impacts shown in Attachment 1 do not include an approximate $100 million one-time refund expected to result from the revenue sharing plan adopted in Docket No. 990067-EI. That one-time refund is expected to reduce residential rates by about $12 per 1000 KWH in June 2001. Parties to the Stipulation approving the revenue sharing plan are FPL, the Office of Public Counsel, Florida Industrial Power Users Group, and The Coalition for Equitable Rates. The Stipulation is clear that any refund will be made in June of each year that the revenue sharing plan is in effect.

TB:kb
Attachments
cc: Bill Talbot
Mary Bane
Blanca Bayo, Records and Reporting
Rob Vandiver, Office of Public Counsel
John McWhirter, FIPUG
Vicki Kaufmann, FIPUG
Matt Childs, Florida Power & Light Company
Ron LaFace, The Coalition for Equitable Rates

FLORIDA POWER & LIGHT COMPANY

EFFECT OF MID-COURSE CORRECTIONS ON 1,000 KILOWATT HOUR RESIDENTIAL BILL

FPL PROPOSED MID-COURSE CORRECTION

	PRESENT JANUARY - MARCH 2001	MID-COURSE CORRECTION APRIL - DECEMBER 2001	ESTIMATED JAN. - DEC. 2002 BASED ON 2002 FUEL FORECAST *	ESTIMATED JAN. - DEC. 2002 BASED ON 2001 FUEL FORECAST **
Base Rate Charges	$43.26	$43.26	$43.26	$43.26
Fuel and Purchased Power	$29.31	$36.67	$34.68	$38.06
Energy Conservation Cost	$1.81	$1.81	$1.77	$1.77
Environmental Cost	$0.08	$0.08	$0.00	$0.00
Capacity Cost	$5.27	$5.27	$6.87	$6.87
Gross Receipts Tax	$0.82	$0.89	$0.89	$0.92
Total	**$80.55**	**$87.98**	**$87.47**	**$90.88**
INCREASE (DECR.) FROM PRESENT:		**$7.43**		
INCREASE (DECR.) FROM APRIL 2001 MID-COURSE:			**($0.51)**	**$2.90**

ALTERNATIVE MID-COURSE CORRECTION

	PRESENT JANUARY - MARCH 2001	MID-COURSE CORRECTION APRIL - DECEMBER 2001	ESTIMATED JAN. - DEC. 2002 BASED ON 2002 FUEL FORECAST *	ESTIMATED JAN. - DEC. 2002 BASED ON 2001 FUEL FORECAST **
Base Rate Charges	$43.26	$43.26	$43.26	$43.26
Fuel and Purchased Power	$29.31	$34.17	$36.64	$40.02
Energy Conservation Cost	$1.81	$1.81	$1.77	$1.77
Environmental Cost	$0.08	$0.08	$0.00	$0.00
Capacity Cost	$5.27	$5.27	$6.87	$6.87
Gross Receipts Tax	$0.82	$0.87	$0.91	$0.94
Total	**$80.55**	**$85.46**	**$89.45**	**$92.86**
INCREASE (DECR.) FROM PRESENT:		**$4.91**		
INCREASE (DECR.) FROM APRIL 2001 MID-COURSE:			**$3.99**	**$7.40**

Notes

- Estimated bills for 2002 reflect projected 2002 kwh sales and projected changes to capacity, environmental, and energy conservation recovery clauses.
- FPL proposed mid-course correction includes $76.8 million final 2000 true-up underrecovery, plus $431.5 million estimated 2001 underrecovery.
- Alternative mid-course correction includes $76.8 million final 2000 true-up underrecovery, plus $259 million of estimated 2001 underrecovery. Defers $172.5 million of 2001 underrecovery, plus $9 million in associated interest to 2002.

* Based on FPL's forecast of fuel prices expected in 2002.

** Assumes that fuel prices in 2002 remain at level of 2001 prices.

Rate Impact Estimates of Two Recovery Alternatives
of FPL's Projected Fuel Cost Under-recoveries
(Dollar amounts in millions)

Rate Impact Sources		FPL Proposed Mid-Course Correction		Alternative Mid-Course Correction	
		2001	2002	2001	2002
2000 actual, unaudited fuel under-recovery		$76.8	$0.0	$76.8	
2001 estimated fuel under-recovery		$431.5	$0.0	$259.0	$172.5
Okeelanta/Osceola Regulatory Asset	(1)		$57.0		$57.0
2000 Fuel Regulatory Asset	(2)		$259.0		$259.0
Jan 2001 underrecovery	(3) (4)		$43.4		$43.4
Interest due to fuel deferrals	(4)				$9.0
TOTAL		$508.3	$359.4	$335.8	$540.9

Notes: (1) Amount FPL will collect in 2002 for Okeelanta/Osceola buyout authorized by Order No. PSC-00-1913-PAA-EI, 79% capacity, 21% fuel; (2) Amount FPL will collect in 2002 for 50% of 2000 under-recovery authorized by Order No. PSC-00-2385-FOF-EI; (3) Actual, unaudited under-recovery reported by FPL in its January, 2001 A-schedule adjusted for mid-course correction effects for January; and (4) Amounts in shaded areas represent rate impact sources that were not discussed at the 03/06/2001 Agenda conference.