

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased Power
Cost Recovery Clause and
Generation Performance Incentive
Factor.

Docket No. 010001-EI

Filed: July 13, 2001

COMMISSION
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Post-Workshop Comments of the Florida Industrial Power Users Group

The Florida Industrial Power Users Group (FIPUG), pursuant to the Staff Workshop Memorandum of May 25, 2001, files the following post-workshop comments regarding the appropriate fuel cost recovery period.

1. In the recallable past fuel costs were included in base rates, the risk of price changes was borne by the utility. When fuel costs became volatile the Commission authorized a fuel cost recovery clause that guaranteed full fuel cost recovery to the utilities and shifted fuel market risk exclusively to customers. When fuel cost returned to stability instead of returning fuel costs to base rates the Commission instituted an annual fuel cost factor. The annual factor hasn't worked to provide stable rates or infrequent hearings as promised because fuel costs have become somewhat volatile again. One utility wants to return to six month factors the others wish to stay on an annual basis with the opportunity for mid course correction when costs go up. If fuel costs go down, the utilities will be provided with a source of low cost capital until the factor is adjusted again.

2. FIPUG noted in its initial comments that the fuel cost recovery mechanism should promote conservation by sending the appropriate real time price signals to customers. It probably makes the most sense to change fuel factors at the time electric consumption increases. This is the time when the less efficient generating units are being operated and utilities short on capacity are purchasing power extensively from the wholesale market. This would be the period from May through September. It would emulate the time of day rates the Commission adopted many years ago

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to send proper price signals to customers along with the proper information to enable customers to budget. This could be done in either an annual or semi annual filing. Gulf with a stable fuel cost could use an annual factor. The other three would have structured factors based on annual estimates with a simple review in April to see if estimates are on course.

3. Regardless of the approach taken utilities would have the option to come to the Commission for a mid-course correction.

4. The Commission should consider returning part of fuel cost risk to the utilities. This could be done by disallowing a midcourse increase unless the price of fuel and purchased power has increased more than 10%. No increase should be granted on such a petition if the utility is earning in excess of the mid point of its authorized return on equity from base rates unless the utility, can show that providing interim financing from its base rate earnings would bring the utility below the floor of the range of reasonable return. This approach would allow the utility rather than the customers to fund fuel costs until the utility receives its guaranteed fuel cost recovery true up plus interest at commercial paper rates.

5. FIPUG was impressed with the Florida Public Utility suggestion which tracks the fuel cost recovery mechanism used for local gas distribution companies. The gas clause appears to give the utility guaranteed recovery in a manner that lets the utility get automatic increases during high cost times and lets customers get relatively prompt rate relief when fuel costs fall off. The gas cost recovery clause works seamlessly without the necessity of hearings.

6. In summary it should be the Commission's goal to as closely as possible match the prices charged to customers to the times when utilities are incurring their costs. It should also consider providing an incentive to the utilities to be careful of their purchases by returning a modest modicum of fuel market risk to them.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Post-Workshop Comments of the Florida Industrial Power Users Group has been furnished by (*) hand delivery, or U.S. Mail this 13th day of July, 2001, to the following:

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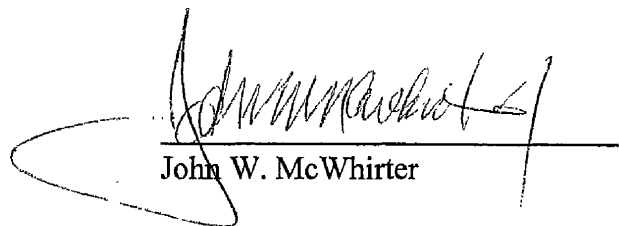
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