State of Florida

Public Service Commission

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COMMISSION CLERK

DATE: FEBRUARY 25, 2003

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (BOHRMANN, MCNULTY, DRAPER)
OFFICE OF THE GENERAL COUNSEL (C. KEATING, HELTON)

TB RJ WBM WCK

RE: DOCKET NO. 030001-EI - FUEL AND PURCHASED POWER COST RECOVERY CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR.

AGENDA: 03/04/03 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030001.RCM

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 are expected to 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 February 13, 2003, Florida Power & Light Company (FPL) notified Commission staff that it currently anticipates the fuel factors approved by Order No. PSC-02-1761-FOF-EI, in Docket No. 020001-EI, issued December 13, 2002, will result in an under-

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recovery of greater than 10 percent. On February 17, 2003, FPL petitioned for approval of a mid-course correction to its fuel cost recovery factors, effective from April 2, 2003, until modified by a subsequent Commission order.

Staff believes that the Commission's decisions on Issue 1 (2002 under-recovery) and Issue 2 (2003 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.

ISSUE 1: Should the Commission approve a mid-course correction to FPL's authorized fuel and purchased power cost recovery factors to collect its $72.5 million under-recovery for 2002?

RECOMMENDATION: Yes. The Commission should approve FPL's petition for a mid-course correction to collect its $72.5 million under-recovery for 2002. This approval would mitigate the rate impact of FPL collecting this amount during 2004. (BOHRMANN, DRAPER, C. KEATING)

STAFF ANALYSIS: Based on actual results through December 2002, FPL states that it experienced a $72.5 million under-recovery for 2002. This $72.5 million under-recovery is primarily due to an approximate $81.7 million (3.4 percent) increase compared with projections in Jurisdictional Fuel Costs & Net Power Transactions offset by an approximate $9.4 million increase compared with projections in Jurisdictional Fuel Revenues.

FPL states that the $81.7 million variance in Jurisdictional Fuel Costs and Net Power Transactions is primarily due to a $60.8 million (3 percent) increase compared with projections in Fuel Cost of System Net Generation, plus a $27.4 million (6.5 percent) increase compared with projections for total cost of purchased power. These amounts are offset by a $4.4 million (8.8 percent) increase compared with projections in Fuel Cost and Gains of Power Sold, and a $1.0 million decrease in Adjustments to Fuel Cost compared with projections.

FPL states that the reason for the $81.7 million variance in Fuel Cost of System Net Generation was a large, unexpected, short-term increase in demand and price for both oil and natural gas during the last two months of 2002. In the short term, demand for these fuels is primarily dependent upon the weather. 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 2002 period in this case. However, the Commission has allowed its jurisdictional utilities to collect (refund) such under-recovered (over-recovered) amounts as part of mid-course corrections in subsequent recovery periods. See Order Nos. PSC-00-1081-PCO-EI, in Docket No. 000001-EI, issued June 5, 2000 and PSC-01-0963-PCO-EI, in Docket No. 010001-EI, issued April 18, 2001.

For the reasons set forth below, staff believes the Commission should authorize FPL in this instance to collect its final 2002 under-recovery through this mid-course correction.

First, unlike the projected 2003 under-recovery amount, FPL's $72.5 million 2002 under-recovery represents the difference between actual costs incurred and revenues received. Although unaudited, staff believes these actual fuel revenues and costs from 2002 have a higher degree of certainty than the projected fuel revenues and costs for 2003. Staff has commenced an audit of FPL's 2002 fuel revenues and costs in the normal course of this docket. The Commission can address any audit findings which may result in a dollar adjustment to the fuel clause in the November 12-14, 2003 hearing scheduled for this docket. Second, if FPL commences recovery of the $72.5 million under-recovery in April 2003, instead of January 2004, this action would be consistent with the basic principle of ratemaking which seeks to match the timing of the incurrence of costs with the timing of their recovery. If FPL had not filed a petition for approval of a mid-course correction and subject to regulatory review, FPL would have collected the $72.5 million under-recovery, plus interest, in 2004.

Staff has calculated the monthly bill impact of the $72.5 million under-recovery for a FPL residential ratepayer. Based on jurisdictional energy sales of 75,152,890 MWH for April through December 2003, the bill for a residential ratepayer who uses 1,000 kwh monthly would increase by $0.98.

ISSUE 2: Should the Commission approve a mid-course correction to FPL's authorized fuel and purchased power cost recovery factors to collect FPL's projected $274.9 million under-recovery in 2003?

PRIMARY RECOMMENDATION: Yes. FPL's request for mid-course correction of its fuel factors should be approved for the following four reasons: 1) FPL's projected underrecovery based on the current factors exceeds the ten percent threshold for reporting purposes; 2) FPL's projected underrecovery is based on reasonable fuel price assumptions; 3) the proposed mid-course correction would most likely result in better price signals to FPL customers; and 4) the proposed mid-course correction may prevent more severe customer rate impacts in 2004. Any over-recovery that FPL collects due to the proposed fuel cost recovery factors will be refunded to FPL's ratepayers with interest. (McNULTY, DRAPER, HELTON)

ALTERNATE RECOMMENDATION: No. For reasons set forth below, the Commission should authorize FPL to collect $101.2 million of its projected 2003 under-recovery during the remainder of 2003. The Commission should also authorize FPL to collect, subject to regulatory review, the remaining $173.7 million of its projected 2003 under-recovery during 2004. If the Commission approves staff's recommendation in Issue 1 and alternate staff's recommendation in this issue, the Commission will have authorized FPL to collect its projected $347.4 million under-recovery over a 21-month time period, compared with nine months as FPL requested. (BOHRMANN, DRAPER, C. KEATING)

PRIMARY STAFF ANALYSIS: Based on updated projections for 2003, FPL estimates an under-recovery of $274.9 million (10.6 percent) for 2003. 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 2003 under-recovery amount.

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. FPL uses these updated assumptions to develop future cost and revenue estimates. During the scheduled November 12-14, 2003 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.

Staff will address whether FPL has acted prudently to procure fuels reliably and cost-effectively at the November 12-14, 2003, evidentiary hearing in this docket, not through this recommendation. This recommendation does offer, for informational purposes, an update regarding the financial results associated with FPL's fuel price hedging activities. Such hedging activities are taken to mitigate the price and volume risk associated with fuel and purchased power procurement with the array of physical and financial hedging techniques at FPL's disposal. Per Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued October 30, 2002, the Commission removed potential disincentives for IOUs to engage in hedging. For instance, these utilities can now recover through the fuel clause hedging transaction costs, gains and losses from hedging transactions, and incremental operating and maintenance expenses associated with new and expanded hedging programs. By Order No. PSC-02-1761-FOF-EI, in Docket No. 020001-EI, issued December 13, 2002, the Commission approved actual and estimated expenditures of $3,278,147 for incremental 2002 and 2003 expenses associated with FPL's hedging program. Each utility is required to report the success of its risk management activities as part of its Final True-up filing in this docket on April 1 of each year, along with specified hedging information and data. Staff will use these filings in conjunction with the utilities' risk management plans to initiate any further discovery required in this docket.

FPL's Reasons for Mid-Course Correction

FPL states in its petition for a mid-course correction that the estimated $274.9 million under-recovery amount is primarily due to higher projected natural gas prices and residual oil prices. These prices were originally projected in Gerard Yupp's direct testimony and applied in Korel Dubin's supplemental direct testimony, both prefiled November 4, 2002, in Docket No. 020001-EI. Table 1 in Attachment B compares FPL's forecasts of the average 2003 fuel prices as filed on November 4, 2002, in Docket No.

020001-EI, and on February 17, 2002, in its petition for a mid-course correction in this docket.

FPL provides three reasons for the higher projected natural gas prices for 2003, all of which are related to gas supply. First, the impact of colder than normal weather in the natural gas burning regions of North America has resulted in significantly larger than anticipated withdrawals from gas storage. Second, FPL expects lower domestic natural gas production as reflected in a slower rebound in domestic natural gas directed rig activity. Third, FPL expects that there will be lower U.S. imports of natural gas from Canada and deliveries of liquefied natural gas.

FPL provides four reasons for the higher projected residual oil prices for 2003. Reasons reflecting oil supply concerns include increasing tensions in the Middle East in anticipation of a war, an unanticipated and continuing oil workers strike in Venezuela, and a continuation of historically low crude oil and residual fuel oil (and heating oil) inventories in the U.S. In addition, the colder than normal winter, especially in the heating regions of North America, has placed additional demand pressure on price.

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.

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 in duration, 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.

Fifth, FPL engages in financial hedging instruments, such as futures, options, and swaps. While FPL has limited its participation in these types of transactions, it has been developing the necessary infrastructure during the past year to participate in such financial hedging activities.

Reasonableness of FPL's Assumptions

Staff compared the data and assumptions that FPL relied upon to support its November 4, 2002, filing in Docket No. 020001-EI and its February 17, 2003, filing in this docket. One of FPL's assumptions did not change -- retail energy sales remained 97,034,630 MWH. However, three sets of FPL's assumptions did change: fuel price forecast; system efficiency; and unit dispatch.

Table 2 in Attachment B 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 14, 2003, for the period March 2003 through December 2003. The market was closed on February 17, 2003 in recognition of President's Day, so the preceding market day was used to approximate the date of the petition. The data in the table indicate that FPL's natural gas price forecast ranges from 10.3 percent to 16.8 percent less than the NYMEX for each remaining month in 2003. In addition, staff compared FPL's 2003 residual oil price forecast to the 2003 residual oil price estimate listed in the U.S. Energy Information Administration's (EIA) Short Term Energy Outlook for February 2003. Staff used EIA's estimate because NYMEX has not created a futures market for residual oil. FPL's 2003 residual oil price estimate is $4.16/MMBtu compared with EIA's residual oil price estimate of $4.36/MMBtu. Based on these comparisons, staff believes FPL's natural gas commodity and residual oil price forecasts are reasonable for purposes of the proposed FPL mid-course correction.

Table 3 in Attachment B shows that FPL's forecasted system efficiency fell by approximately 0.4 percent, resulting primarily from the increased oil-fired generation planned for 2003. Since oil fired generation is replacing gas fired generation, FPL's forecasted weighted average system efficiency decreased from 9,225 Btu/kWh to 9,261 Btu/kWh. We find this assumption reasonable.

Table 4 in Attachment B shows the changes in FPL's forecast of net generation by fuel type for the filings FPL made on November 4, 2002, and February 17, 2003. 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. These impacts are reflected in the table, as FPL's projected natural gas fired generation decreased by 1.7 percent and oil fired generation increased 2.8 percent. In addition, coal and nuclear generation is further maximized in the mid-course projection filing. Based on the expected fuel prices for the remainder of 2003, FPL's forecast of net generation by fuel type is reasonable for purposes of the proposed FPL mid-course correction.

<u>Estimated Savings/Losses Associated with Hedging</u>

FPL projects certain fuel savings via fuel price hedges the Company has transacted for 2003. The utility reports that most of the savings are based on physical hedges, rather than financial hedges. FPL calculated savings by taking the actual hedged volumes times the differential between the fixed price position and FPL's filed fuel price forecast per the mid-course correction on a monthly basis. The company states that it projects 2003 price savings of $9.5 million for natural gas purchases, $7.7 million savings for residual oil purchases, $5.5 million for wholesale energy sales, and $4.6 million for wholesale energy purchases, for a total savings of $27.3 million. FPL reports that these savings are reflected in its filed petition for midcourse correction.

In the latter part of 2002, FPL hedged from 19 percent to 33 percent of its natural gas purchases. FPL states that its hedged volumes of natural gas decline throughout 2003 compared to the percentage hedged in late 2002, particularly with respect to fixed price positions, consistent with a trending decline in projected natural gas prices through October 2003. FPL reports that it continues to look for hedging opportunities in the natural gas market.

Impact of Mid-Course Correction on FPL's Ratepayers

FPL has proposed to collect the estimated under-recovery for 2003 and the final under-recovery for 2002 from April through December, 2003. 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, the 1,000 KWH residential ratepayer's bill would increase by $4.75 (6.2 percent) to $81.60 (Refer to Attachment B, page 2 of 2). As a basis for comparison, the April, 2001, midcourse correction for FPL resulted in a $7.43 (9.2 percent) increase in a 1,000 KWH residential bill to $87.98. Staff notes that allowing recovery of the additional projected costs associated with FPL's instant petition beginning in April 2003, provides a better price signal to customers than if the recovery of such costs were deferred until January 2004. In other words, it would provide a better match between the time costs are incurred and the time they are recovered. In addition, a decision to defer these costs could result in a more severe impact upon customer rates in January 2004, than if the Commission authorized recovery now. Scenarios where that could happen include the following: 1) 2003 actual costs exceed FPL's newly projected costs or 2) 2004 costs are projected to be at or above the level of costs reflected in the current FPL fuel factors.

Further, if the Commission allows recovery as FPL requested, 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, 2002, under-recovery balance was 1.3 percent. According to FPL, its ratepayers would avoid approximately $800,000 in interest payments through 2004 if the Commission authorizes FPL to collect the under-recovery in 2003 instead of 2004.

Summary

Staff recommends that FPL's request for mid-course correction of its fuel factors should be approved for the following four reasons: 1) FPL's projected underrecovery based on the current factors exceeds the ten percent threshold for reporting purposes; 2) FPL's projected underrecovery is based on reasonable fuel price assumptions; 3) the proposed mid-course correction would most likely result in better price signals to FPL customers; and 4) the proposed mid-course correction may prevent more severe customer rate impacts in 2004. Any over-recovery that FPL collects due to the proposed fuel cost recovery factors will be refunded to FPL's ratepayers with interest.

ALTERNATE STAFF ANALYSIS: Alternate staff agrees with many points brought forward in primary staff's analysis on Issue 2. Alternate staff agrees that if FPL's assumptions regarding fuel prices are met, then FPL would experience a $274.9 million under-recovery for 2003. Alternate staff also agree that FPL takes many proactive measures to minimize its fuel costs, regardless of fuel prices. Finally, alternate staff agrees that FPL's natural gas price forecast compares favorably with the prices quoted for the natural gas contract traded on the New York Mercantile Exchange (NYMEX). However, alternate staff bases its recommendation on the experience the Commission and the parties shared regarding a mid-course correction FPL requested and the Commission approved two years ago under similar conditions. Based on this experience, the Commission should respond, yet respond cautiously, to the most recent increase in natural gas prices for the reasons set forth below.

Alternate staff draws some parallels between the instant petition and a petition that FPL filed two years requesting similar relief under similar conditions. Colder-than-normal temperatures throughout the nation from mid-November 2000 through mid-January 2001 combined with low drilling activity and low storage levels had placed upward pressure on natural gas prices. In February 2001, FPL believed natural gas prices would remain high throughout the remainder of 2001. Consequently, FPL requested to collect an additional $508 million from April through December 2001 through its fuel cost recovery factors. The Commission determined FPL's natural gas price forecasts were consistent with quoted prices on the NYMEX, and approved FPL's request by Order No. PSC-01-0963-PCO-EI, in Docket No. 010001-EI, issued April 18, 2001 (Order No. 01-0963).

However, natural gas prices did not remain at the forecasted levels for the remainder of 2002. To the contrary, natural gas prices peaked at $10.71/million British thermal units (MMBtu) in January, but then fell steadily throughout the year to finish at $2.93/MMBtu in December. Alternate staff has calculated the variances (difference between actual and forecasted prices) on a monthly basis during 2001 for FPL's natural gas forecast, and produced those variances on Attachment C. After FPL implemented its revised fuel cost recovery factors in April, the maximum variance for natural gas was $-0.98/MMBtu (May). This variance diminished steadily throughout the year to finish at $-4.24/MMBtu.

Alternate staff is not suggesting that the Commission made an incorrect decision in Order No. 01-0963. Based on the information known in early 2001, FPL's natural gas price forecast compared favorably with prices quoted on the NYMEX. However, this natural gas price forecast, although reasonable in foresight, was no less than $0.98/MMBtu greater than actual natural gas prices during 2001.

As the largest investor-owned electric utility in Florida, FPL consumes large quantities of fuel, especially natural gas. For its analysis, alternate staff focused exclusively on FPL's natural gas variances because FPL uses more natural gas than any other fuel and natural gas prices are the most volatile. According to documents filed with its petition, FPL expects to consume approximately 290 trillion Btu's of natural gas during 2003. For every one cent variance between FPL's forecasted and actual natural gas price, FPL's fuel costs change by $2.9 million. If the variances of FPL's natural gas price forecast for 2003 mirror the performance of its 2001 counterpart, FPL's fuel costs may be at least $284 million less than currently expected, all other factors equal.

In discussions with the parties and staff, FPL has claimed that current industry conditions do not support a repeat of 2001 in which natural gas prices peaked in January, and then fell steadily through the remainder of the year. Although alternate staff agrees that current industry conditions could be stronger, these conditions are not at unprecedented levels. FPL cited two key indicators to assess the natural gas industry's conditions: natural gas storage and drilling activity. According to the U.S. Energy Information Administration, the average level of natural gas storage during the first seven weeks of 2001 was 1,341 billion cubic feet (BCF). During the first seven weeks of this year, the average level of natural gas in storage was 1,756 BCF. Also, Baker-Hughes Incorporated, who tracks drilling activity worldwide, reports 854 rigs in operation nationwide for January 2003 (most current month available), which is slightly more than the ten-year average of 833 rigs in operation.

Alternate staff does not possess a unique insight into future natural gas prices that FPL does not have. However, alternate staff believes that FPL's petition and its underlying assumptions do not consider that natural gas prices may fall as sharply and quickly this year as prices did in 2001. FPL assumes that natural gas prices will average $5.58/MMBtu during 2003, and will not fall below $5.20/MMBtu during this period. As shown on Attachment C, actual natural gas prices in 2001 fell below $5.00 during June, and remained below this level for the remainder of the year.

The Commission should authorize FPL to collect its projected $347.4 million under-recovery over a 21-month time period, compared with nine months as FPL requested, for several reasons. First, due to the inherent volatility in natural gas prices, this decision would be a reasonably moderate response to FPL's request. Second, when FPL implements this moderate response on its ratepayers' bills, ratepayers would receive a signal to adjust their consumption accordingly. Third, if natural gas prices follow a similar pattern compared with 2001 actual prices, FPL would not be placed in a position to request a mid-course correction later this year to refund an over-recovery balance to its ratepayers. Fourth, if FPL's natural gas price forecast does materialize, the Commission has already authorized FPL to include these additional costs as a component of FPL's 2004 fuel cost recovery factors. Finally, if natural gas prices have not peaked yet for 2003, this moderate response does not materially increase the likelihood of FPL requesting an additional mid-course correction this year due to an under-recovery balance.

If Commission should authorize FPL to collect its projected \$347.4 million under-recovery over a 21-month time period, the monthly bill for a FPL residential ratepayer would increase to \$79.21 for 1,000 kwh from April through December, 2003. This action would represent an increase of \$2.36 per 1,000 kwh compared with current levels.

ISSUE 3: If the Commission approves FPL's petition, in whole or in part, for a mid-course correction, 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, 2003. (BOHRMANN, DRAPER, C. KEATING)

STAFF ANALYSIS: FPL has requested an effective date beginning with the cycle 3 billings for April 2003, which fall on April 2, 2003. Although this effective date falls a day short of the customary 30-day notice requirement for rate increases, staff believes such treatment is reasonable. Due to the under-recovery's relative size, the Commission should implement the new factors as soon as possible. The April 2, 2003, 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.

The Commission did require a 30-day notice in Order No. PSC-00-1081-PCO-EI, issued June 5, 2000, which granted FPL's, Florida Power Corporation's, and Tampa Electric Company's petitions for mid-course corrections in 2000. 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 one day.

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 the Commission's decision. Such information should include, but not be limited to: the total dollar amount of the mid-course correction; the impact on the typical ratepayer's monthly bill; and the effective date of the approved 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.

Attachment A
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Table 1: Change in FPL's 2003 Delivered Fuel Price Forecast ($/MMBtu)			
	As-Filed (11/04/02)	As-Filed (02/17/03)	Change
Natural Gas	$4.81	$5.58	16.01%
Residual Oil	$3.85	$4.16	8.05%
Distillate Oil	$6.00	$6.41	6.83%
Coal	$1.77	$1.78	0.01%
Nuclear	$0.31	$0.30	-0.03%

Table 2: FPL Monthly Natural Gas Commodity Price Compared to NYMEX ($/MMBtu)				
Month in 2001	FPL 02/17/03 Petition Natural Gas Price	NYMEX 02/14/03 Natural Gas Price	Difference	Percent Difference
March	$5.15	$5.74	($0.59)	-10.28%
April	$4.80	$5.55	($0.75)	-13.51%
May	$4.45	$5.35	($0.90)	-16.82%
June	$4.45	$5.26	($0.81)	-15.40%
July	$4.45	$5.23	($0.78)	-14.91%
August	$4.45	$5.19	($0.74)	-14.18%
September	$4.45	$5.15	($0.70)	-13.51%
October	$4.45	$5.16	($0.71)	-13.68%
November	$4.45	$5.31	($0.86)	-16.12%
December	$4.75	$5.46	($0.71)	-12.92%

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Table 3: FPL's Forecasts of System Efficiency (Btu/kwh)		
	As-filed (11/04/02)	As-Filed (02/17/03)
Residual Oil	9,921	9,946
Distillate Oil	12,862	12,987
Coal	10,509	10,516
Natural Gas	7,430	7,449
Nuclear	10,509	10,516
Weighted Average	9,225	9,261

Table 4: FPL's System Net Generation (GWH) by Fuel Type			
	As-Filed 11/04/2002	As-Filed 02/17/2003	% Change
Residual Oil	17,596,469	18,094,002	2.83%
Distillate Oil	53,290	84,879	59.28%
Coal	6,750,341	6,946,353	2.90%
Natural Gas	39,711,734	39,027,939	-1.72%
Nuclear	23,870,395	24,024,310	0.64%
Total	87,982,229	88,177,483	0.22%

Florida Power & Light Company
Proposed Fuel and Purchased Power Cost Recovery Factors
For the Period: April through December 2003

Group	Rate Schedule	Fuel Recovery Factor (cents/kWh)
A	RS-1, GS-1, SL-2	3.203
A-1	SL-1, OL-1, PL-1	3.151
B	GSD-1	3.203
C	GSLD-1, CS-1	3.199
D	GSLD-2, CS-2, OS-2, MET	3.178
E	GSLD-3, CS-3	3.050
A	RST-1, GST-1 ON-PEAK OFF-PEAK	 3.444 3.096
B	GSDT-1, CILC-1(G) ON-PEAK OFF-PEAK	 3.444 3.096
C	GSLDT-1, CST-1 ON-PEAK OFF-PEAK	 3.440 3.092
D	GSLDT-2, CST-2 ON-PEAK OFF-PEAK	 3.417 3.072
E	GSLDT-3,CST-3,CILC-1(T),ISST-1(T) ON-PEAK OFF-PEAK	 3.279 2.948
F	CILC-1(D), ISST-1(D) ON-PEAK OFF-PEAK	 3.413 3.068

RESIDENTIAL FUEL COST RECOVERY FACTORS FOR THE PERIOD: **April 2003 - December 2003** 19-Feb-2003

DOCKET NO. 030001-EI
DATE: February 25, 2003

NOTE: This schedule reflects a midcourse correction to Florida Power & Light Company's fuel factors and Progress Energy Florida's fuel and capacity factors effective April 2003.

		Florida Power & Light Co.	Progress Energy Florida, Inc. (3)	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2) Marianna	Florida Public Utilities Co. (2) Fernandina Beach
Present (cents per kwh):	January 2003 - March 2003	2.733	2.325	3.015	2.359	3.846	3.745
Proposed (cents per kwh):	April 2003 - December 2003	**3.203**	**2.741**	**3.015**	**2.359**	**3.846**	**3.745**
	Increase/Decrease:	0.470	0.416	0.000	0.000	0.000	0.000

TOTAL MONTHLY BILL - RESIDENTIAL SERVICE - 1,000 KILOWATT HOURS

PRESENT **January 2003 - March 2003**	Florida Power & Light Co.	Progress Energy Florida, Inc. (3)	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2) Marianna	Florida Public Utilities Co. (2) Fernandina Beach
Base Rate Charges	40.22	41.18	51.92	49.30	20.43	19.20
Fuel and Purchased Power Cost Recovery Clause	27.33	23.25	30.15	23.59	38.46	37.45
Energy Conservation Cost Recovery Clause	1.80	1.89	1.16	0.61	0.79	0.49
Environmental Cost Recovery Clause	0.19	0.14	1.44	1.05	N/A	N/A
Capacity Cost Recovery Clause	6.53	11.88	2.77	0.95	N/A	N/A
Gross Receipts Tax (1)	0.78	2.01	2.24	1.94	1.53	0.59
Total	**$76.85**	**$80.35**	**$89.68**	**$77.44**	**$61.21**	**$57.73**

PROPOSED **April 2003 - December 2003**	Florida Power & Light Co.	Progress Energy Florida, Inc. (3)	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2) Marianna	Florida Public Utilities Co. (2) Fernandina Beach
Base Rate Charges	40.22	41.18	51.92	49.30	20.43	19.20
Fuel and Purchased Power Cost Recovery Clause	32.03	27.41	30.15	23.59	38.46	37.45
Energy Conservation Cost Recovery Clause	1.80	1.89	1.16	0.61	0.79	0.49
Environmental Cost Recovery Clause	0.19	0.14	1.44	1.05	N/A	N/A
Capacity Cost Recovery Clause	6.53	11.00	2.77	0.95	N/A	N/A
Gross Receipts Tax (1)	0.83	2.09	2.24	1.94	1.53	0.59
Total	**$81.60**	**$83.71**	**$89.68**	**$77.44**	**$61.21**	**$57.73**

PROPOSED INCREASE / (DECREASE)	Florida Power & Light Co.	Progress Energy Florida, Inc. (3)	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2) Marianna	Florida Public Utilities Co. (2) Fernandina Beach
Base Rate Charges	0.00	0.00	0.00	0.00	0.00	0.00
Fuel and Purchased Power Cost Recovery Clause	4.70	4.16	0.00	0.00	0.00	0.00
Energy Conservation Cost Recovery Clause	0.00	0.00	0.00	0.00	0.00	0.00
Environmental Cost Recovery Clause	0.00	0.00	0.00	0.00	0.00	0.00
Capacity Cost Recovery Clause	0.00	-0.88	0.00	0.00	0.00	0.00
Gross Receipts Tax (1)	0.05	0.08	0.00	0.00	0.00	0.00
Total	**$4.75**	**$3.36**	**$0.00**	**$0.00**	**$0.00**	**$0.00**

(1) Additional Gross Receipts Tax (GRT) is 1% for FPL and FPUC-Fernandina Beach. Gulf, PEF, 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 1.598 c/kwh for Marianna and 1.473 c/kwh for Fernandina allocated to the residential class.
(3) Formerly known as Florida Power Corporation. Name change became effective January 1, 2003.

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Attachment B
Page 2 of 2

Actual and Estimated Fuel Expenses, 2001
Florida Power & Light Company - Natural Gas
(From Mid-Course Correction E-3)

		Actual						Estimated					
Year	Month	Dollars	MWH	MMBTU	$/MmBtu	Btu/Kwh	C/Kwh	Dollars	MWH	MMBTU	$/MmBtu	Btu/Kwh	C/Kwh
2001	1	86,117,485	936,535	8,042,340	10.71	8,587	9.20	15,637,590	58,964	602,675	25.95	10,221	26.52
2001	2	70,756,683	1,038,917	9,068,711	7.80	8,729	6.81	12,821,400	26,336	321,298	39.91	12,200	48.68
2001	3	78,939,905	1,472,340	12,912,277	6.11	8,770	5.36	23,116,830	149,102	1,423,322	16.24	9,546	15.50
2001	4	100,395,157	1,900,394	16,103,922	6.23	8,474	5.28	30,871,860	383,107	2,967,722	10.40	7,746	8.06
2001	5	99,117,250	1,735,564	16,835,813	5.89	9,700	5.71	71,469,490	1,344,997	10,409,472	6.87	7,739	5.31
2001	6	93,932,633	2,297,304	20,552,750	4.57	8,946	4.09	79,404,190	1,533,685	12,104,063	6.56	7,892	5.18
2001	7	99,422,500	2,447,044	23,015,373	4.32	9,405	4.06	102,999,030	1,943,043	16,349,624	6.30	8,414	5.30
2001	8	94,392,875	2,434,015	22,448,646	4.20	9,223	3.88	109,897,700	2,043,697	17,643,081	6.23	8,633	5.38
2001	9	94,087,523	2,806,512	25,976,929	3.62	9,256	3.35	97,216,550	1,771,969	15,600,655	6.23	8,804	5.49
2001	10	65,698,503	2,776,564	26,019,848	2.52	9,371	2.37	92,229,380	1,727,712	14,472,560	6.37	8,377	5.34
2001	11	70,934,796	2,192,181	19,190,612	3.70	8,754	3.24	81,723,250	1,611,217	12,325,450	6.63	7,650	5.07
2001	12	65,021,443	2,438,511	22,159,869	2.93	9,087	2.67	70,262,170	1,341,394	9,802,538	7.17	7,308	5.24
		1,018,816,753	24,475,881	222,327,090	4.58	9,084	4.16	787,649,440	13,935,223	114,022,458	6.91	8,182	5.65

		Absolute Difference (Actual - Estimate)						Percent Difference					
Year	Month	Dollars	MWH	MMBTU	$/MmBtu	Btu/Kwh	C/Kwh	Dollars	MWH	MMBTU	$/MmBtu	Btu/Kwh	C/Kwh
2001	1	70,479,895	877,571	7,439,665	(15.24)	(1,634)	(17.32)	81.84	93.70	92.51	(142.27)	(19.03)	(188.27)
2001	2	57,935,283	1,012,581	8,747,415	(32.11)	(3,471)	(41.87)	81.88	97.47	96.46	(411.61)	(39.76)	-614.9
2001	3	55,823,075	1,323,238	11,488,955	(10.13)	(776)	(10.14)	70.72	89.87	88.98	(165.82)	(8.85)	(189.25)
2001	4	69,523,297	1,517,287	13,136,200	(4.17)	728	(2.78)	69.25	79.84	81.57	(66.97)	8.59	(52.62)
2001	5	27,647,760	390,567	6,426,341	(0.98)	1,961	0.40	27.89	22.50	38.17	(16.57)	20.22	6.94
2001	6	14,528,443	763,619	8,448,687	(1.99)	1,054	(1.09)	15.47	33.24	41.11	(43.55)	11.78	(26.58)
2001	7	(3,576,530)	504,001	6,665,749	(1.98)	991	(1.24)	(3.60)	20.60	28.96	(45.83)	10.54	(30.56)
2001	8	(15,504,825)	390,318	4,805,565	(2.03)	590	(1.50)	(16.43)	16.04	21.41	(48.31)	6.40	(38.59)
2001	9	(3,129,027)	1,034,543	10,376,274	(2.61)	452	(2.14)	(3.33)	36.86	39.94	(72.14)	4.88	(63.77)
2001	10	(26,530,877)	1,048,852	11,547,288	(3.85)	994	(2.97)	(40.38)	37.78	44.38	(152.88)	10.61	(125.24)
2001	11	(10,788,454)	580,964	6,865,162	(2.93)	1,104	(1.83)	(15.21)	26.50	35.77	(79.20)	12.61	(56.55)
2001	12	(5,240,727)	1,097,117	12,357,331	(4.24)	1,779	(2.57)	(8.06)	44.99	55.76	(144.63)	19.58	(96.18)
		231,167,313	10,540,658	108,304,632	(2.33)	901	(1.49)	22.69	43.07	48.71	(50.74)	9.92	(35.79)