State of Florida

Public Service Commission

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COMMISSION CLERK JUN 23 PM 12: 11

DATE: JUNE 19, 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, RODAN)

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

AGENDA: 07/01/03 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030001A.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 June 12, 2003, Florida Power & Light Company (FPL) notified Commission staff that, based on the fuel factors approved by Order No. PSC-02-1761-FOF-EI, in Docket No. 020001-EI, issued December 13, 2002, and Order No. PSC-03-0381-PCO-EI, in Docket No.

030001-EI, issued March 19, 2003, FPL under-recovered its fuel costs by $214.1 million from February through May 2003. On June 13, 2003, FPL petitioned for approval of a mid-course correction to its fuel cost recovery factors, effective from July 31, 2003, until modified by a subsequent Commission order.

Jurisdiction over this matter is vested in the Commission by several provisions of Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

ISSUE 1: Should the Commission approve a mid-course correction to FPL's authorized fuel and purchased power cost recovery factors to collect its $214.1 million under-recovery for February through May 2003?

RECOMMENDATION: Yes. The Commission should approve FPL's petition for a mid-course correction to collect its $214.1 million under-recovery for February through May, 2003. This approval would mitigate the rate impact of FPL collecting this amount during 2004. (BOHRMANN, C. KEATING)

STAFF ANALYSIS: Based on actual results from February through May 2003, FPL under-recovered its fuel costs by $214.1 million during this period. This $214.1 million under-recovery is attributed to an approximate $247.7 million (22.2 percent) in higher fuel costs. These higher fuel costs are offset in part by an approximate $33.9 million (3.3 percent) in higher fuel revenues.

In its May 2003 A2 schedule, FPL traces the $247.7 million in higher fuel costs to a $218.4 million (21.8 percent) in higher fuel costs of generated power, plus $42.6 million (27.4 percent) in higher purchased power costs. These amounts are offset by $7.0 million (19.9 percent) in higher wholesale energy sales revenues, and a $4.2 million decrease in Adjustments to Fuel Cost compared with projections.

FPL's Reasons for Mid-Course Correction

FPL states in its petition for a mid-course correction that the $214.1 million under-recovery amount is primarily due to two factors. FPL indicates that most of the under-recovery was due to higher-than-expected net energy for load from February through May 2003, due to warmer-than-normal weather during this period, especially in March and May 2003. FPL indicated that its service area experienced 50 percent more cooling degree days than normal during the first five months of 2003. This additional load caused FPL to burn nine percent more residual oil and 21 percent more natural gas than expected during this period.

Second, FPL states that it underestimated the impact several factors outside of its control would have on the price of residual oil and natural gas. For example, FPL underestimated the impact and duration of the oil workers' strike in Venezuela would have on imports from that country. Also, FPL underestimated the continued sluggish response in domestic drilling activities despite high current and projected natural gas prices. In addition, natural gas and refined petroleum product inventories are less than anticipated. When these three factors (i.e., the Venezuelan oil workers' strike, sluggish drilling activity, and low inventory levels) are combined with colder than normal weather in the Northeast and Upper Midwest United States and concerns about crude oil availability from the Middle East leading up to the Iraqi war, FPL incurred residual oil and natural gas prices that were seven percent and 13 percent higher, respectively, than expected on a unit basis.

Staff's Analysis of FPL's Reasons for a Mid-course Correction

To meet its load from February through May 2003, FPL generated an additional 1,202,000 MWH from its own resources. On the wholesale energy market, FPL purchased an additional 195,000 MWH, while selling 100,000 MWH less than it had previously projected. After reviewing FPL's statistical model for energy consumption, staff can attribute this additional load almost exclusively to the warmer than normal weather experienced during this period. FPL estimated the difference between the incremental cost of this volume variance and the associated incremental revenue at approximately $103.2 million. Staff can not replicate this calculation, but does not dispute FPL's estimate.

As stated previously, the cost of fuel that FPL incurred to meet its load increased during the period. Whereas FPL had estimated an weighted average of $4.00 per million British thermal units (MMBtu) for all fuels during the period, FPL actually incurred a cost of $4.68/MMBtu. Staff estimated the incremental cost of this price variance at approximately $116.8 million. Staff calculated the difference in total fuel and purchased power costs due to the increased prices while keeping the load and heat rate for each fuel constant. Staff's calculation agrees materially with a similar calculation that FPL had made at staff's request.

As stated earlier, FPL represented in its petition that the primary reason for the under-recovery was warmer than normal weather which resulted in higher net energy for load than anticipated. Staff inquired about this conclusion in both a data request and in an informal meeting among the parties held on June 18, 2003. FPL informed staff subsequent to the meeting that the petition misstated the primary reasons for the under-recovery.

The Company submitted new information attributing the majority of the under-recovery (53 percent) to the increased unit cost of fuel and purchased power, and the remainder (47 percent) to the additional load. Please refer to Attachment A for this comparison.

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 generating units that do not burn natural gas, to the extent available capacity exists at those 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 minimizes 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. FPL is also 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 engages 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, it 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 its 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.

Staff's Hedging Concerns

Per Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued October 30, 2002 (Order No. 02-1484), the Commission approved a stipulation which encourages each investor-owned electric utility to manage the price volatility of fuel and purchased power. The stipulation specifically authorized the utilities to recover both financial and physical hedging expenses through the fuel clause, including operating and maintenance expenses incurred for the purposes of initiating and/or maintaining a financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility. At the November 2002 hearing in Docket No. 020001-EI, the Commission authorized FPL to recover $3.3 million for 2002 and 2003 incremental operating and maintenance expenses.

FPL's petition is silent regarding the actions the utility has taken to hedge its fuel costs. Staff issued data requests and met with the utility to gain an understanding of what actions FPL had taken pursuant to its risk management plan to mitigate its fuel and purchased power costs. In response, FPL stated that the Company continued to exercise its usual physical hedging strategies as set forth above. However, based on confidential documents filed in response to staff's data requests, staff is concerned that the utility did not hedge a significantly higher volume of natural gas with fixed price instruments. FPL may have experienced greater savings if the utility had done this, which would have directly benefitted its ratepayers. Moreover, this increased hedging activity would have considerably dampened the price volatility in this instance. On the other hand, the Commission has not previously required a minimum volume of any fuel with fixed price instruments. In Order No. 02-1484, the Commission stated its preference to allow each utility the flexibility to create the type of risk management program that the utility finds most appropriate, and further stated that the Commission and parties could evaluate the prudence of such programs at the appropriate time. Staff believes a decision on the prudence of FPL's actions in this instance should be deferred until a more thorough review of the topic can commence prior to the fuel hearing scheduled for this docket in November 2003.

Impact of Mid-Course Correction on FPL's Ratepayers

FPL has proposed to collect the $214.1 million under-recovery for February through May 2003 during the period August through December 2003. The proposed fuel cost recovery factors for all rate schedules are shown on Attachment B, page 1 of 2. If the Commission approves FPL's petition, the 1,000 KWH residential bill would increase by $5.13 (6.3 percent) to $86.73 (Refer to Attachment B, page 2 of 2). Staff notes that allowing recovery of the additional projected costs associated with FPL's petition beginning in August 2003 provides a better price signal to customers than if the Commission deferred recovery of such costs until January 2004. In other words, it would provide a better match between the time costs are incurred and the time the costs are recovered. A decision to defer these costs could result in a more severe impact upon customer rates in January 2004. Scenarios where that could happen include the following: 1) actual costs for the remainder of 2003 exceed FPL's 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 its 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 May 31, 2003, under-reovery balance was 1.5 percent. According to FPL, its ratepayers would avoid approximately $2.3 million in interest payments through 2004 if the Commission authorizes it 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 reasons: 1) the proposed mid-course correction would most likely result in better price signals to FPL customers; and 2) the proposed mid-course correction may prevent more severe customer rate impacts in 2004.

ISSUE 2: What is the appropriate effective date for FPL's revised fuel cost recovery factors?

RECOMMENDATION: FPL's revised fuel cost recovery factors should become effective for meter readings on or after July 31, 2003. (DRAPER)

STAFF ANALYSIS: FPL has requested an effective date of July 31, 2003, which is the first billing cycle day for August 2003. FPL states that due to the magnitude of the under-recovery, the Commission should implement the new factors as soon as possible. The proposed effective date will also insure that all customers are billed under the new factors for the same amount of time.

FPL informed staff that on June 27, 2003, it will begin notifying its customers of the proposed midcourse correction through a bill insert. Specifically, the bill insert will state FPL's proposed total under-recovery amount, the proposed effective date of the proposed fuel cost recovery factors, and the impact on a 1,000 kwh residential bill. Mailing the bill inserts prior to the July 1 Agenda Conference ensures that all customers receive a full 30-day notice of the proposed increase. This provides customers the opportunity to adjust their usage in light of the new factors.

Staff believes that FPL's proposed effective date and plan to notify its customers are appropriate and should therefore be approved.

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.

FLORIDA POWER & LIGHT COMPANY
SUMMARY OF FEBRUARY 2003 THROUGH MAY 2003 A-SCHEDULES

Component of Variance		Volume $	Volume %		Cost $	Cost %		Total	
Heavy Oil (A3)	$	21,327,143	53%	$	18,596,064	47%	$	39,923,207	
Light Oil (A3)	$	3,153,782	39%	$	4,909,424	61%	$	8,063,206	
Coal (A3)	$	(4,230,837)	103%	$	125,506	-3%	$	(4,105,331)	
Natural Gas (A3)	$	101,809,434	57%	$	75,947,186	43%	$	177,756,620	
Nuclear (A3)	$	205,988	-6%	$	(3,415,511)	106%	$	(3,209,523)	
Southern (UPS & R), St. Lucie, SJRPP (A7)	$	(2,735,526)	834%	$	2,407,682	-734%	$	(327,844)	
PPA's (A7)	$	19,389,386	65%	$	10,301,101	35%	$	29,690,487	
FPC (A7)	$	582,828	21%	$	2,181,999	79%	$	2,764,827	
Economy Florida (A9)	$	3,487,485	59%	$	2,394,399	41%	$	5,881,884	
Economy non-Florida (A9)	$	(3,451,408)	-468%	$	4,188,164	568%	$	736,756	
QFs (A8)	$	(647,646)	-17%	$	4,547,840	117%	$	3,900,194	
Power Sales (A6)	$	(1,773,881)	45%	$	(2,126,859)	55%	$	(3,900,740)	
Gains on sales (A6)	$	-	0%	$	(3,128,803)	100%	$	(3,128,803)	
Total Cost Variance	**$**	**137,116,748**	**54%**	**$**	**116,928,192**	**46%**	**$**	**254,044,940**	
Additional Revenue	$	(33,917,332)	100%		0	0%	$	(33,917,332)	
Cost variance less additional revenue	**$**	**103,199,416**	**47%**	**$**	**116,928,192**	**53%**	**$**	**220,127,608**	
Adjustments							$	(4,193,828)	
							$	215,933,780	Sub-Total
							$	213,770,277	Jurisdictionalized
							$	336,848	Interest
							$	**214,107,125**	**Under-recovery**

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

Group	Rate Schedule	Fuel Recovery Factor (cents/kWh)
A	RS-1, GS-1, SL-2	3.711
A-1	SL-1, OL-1, PL-1	3.660
B	GSD-1	3.710
C	GSLD-1, CS-1	3.706
D	GSLD-2, CS-2, OS-2, MET	3.681
E	GSLD-3, CS-3	3.533
A	RST-1, GST-1 ON-PEAK OFF-PEAK	 3.951 3.603
B	GSDT-1, CILC-1(G) ON-PEAK OFF-PEAK	 3.951 3.603
C	GSLDT-1, CST-1 ON-PEAK OFF-PEAK	 3.946 3.599
D	GSLDT-2, CST-2 ON-PEAK OFF-PEAK	 3.920 3.575
E	GSLDT-3,CST-3,CILC-1(T),ISST-1(T) ON-PEAK OFF-PEAK	 3.762 3.431
F	CILC-1(D), ISST-1(D) ON-PEAK OFF-PEAK	 3.915 3.571

RESIDENTIAL FUEL COST RECOVERY FACTORS FOR THE PERIOD: August 2003 - December 2003

16-Jun-2003

NOTE: This schedule reflects a midcourse correction to Florida Power & Light Company's fuel factors effective August 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):	April 2003 - July 2003	3.203	2.741	3.450	2.359	3.846	3.745
Proposed (cents per kwh):	August 2003 - December 2003	**3.711**	**2.741**	**3.450**	**2.359**	**3.846**	**3.745**
	Increase/Decrease:	0.508	0.000	0.000	0.000	0.000	0.000

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

PRESENT April 2003 - July 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	34.50	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	2.35	1.94	1.53	0.59
Total	**$81.60**	**$83.71**	**$94.14**	**$77.44**	**$61.21**	**$57.73**

PROPOSED August 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	37.11	27.41	34.50	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)	0.88	2.09	2.35	1.94	1.53	0.59
Total	**$86.73**	**$83.71**	**$94.14**	**$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	5.08	0.00	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	0.00	0.00	0.00	0.00	0.00
Gross Receipts Tax (1)	0.05	0.00	0.00	0.00	0.00	0.00
Total	**$5.13**	**$0.00**	**$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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