ORIGINAL

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Subject: E-filing (Dkt. 060001-EI)
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Electronic Filing

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b. Docket No. 060001-EI

In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive

c. Document being filed on behalf of Office of Public Counsel

d. There are a total of 18 pages.

e. The document attached for electronic filing is the Prehearing Statement of the Office of Public Counsel.

(See attached file: 060001.prehearing statement.sversion.doc)

Thank you for your attention and cooperation to this request.

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DOCUMENT NUMBER-DATE
09244 OCT-6 ❽
FPSC-COMMISSION CLERK

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Fuel and purchased power cost recovery clause with generating performance incentive factor.	))))	DOCKET NO. 060001-EI FILED: October 6, 2006

PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL

The Citizens of the State of Florida, through the Office of Public Counsel, pursuant to the Orders Establishing Procedure in this docket, Order No. PSC-06-0207-PCO-EI, issued March 15, 2006, and Order No. PSC-06-0710-PCO-EI, issued August 23, 2006, submit this Prehearing Statement.

APPEARANCES:

PATRICIA A. CHRISTENSEN, Esquire
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JOSEPH A. MCGLOTHLIN, Esquire
Associate Public Counsel
CHARLES J. BECK, Esquire
Deputy Public Counsel
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c/o The Florida Legislature
111 West Madison Street, Room 812
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On behalf of the Citizens of the State of Florida.

1. WITNESSES:

Citizens prefiled testimony by the following witnesses:

Patricia W. Merchant: Ms. Merchant's testimony discusses the proper regulatory treatment of the gas storage costs which Florida Power & Light Company (FPL) seeks to recover through the fuel cost recovery clause (fuel clause).

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FPSC-COMMISSION CLERK

James A. Ross: Mr. Ross's testimony evaluates whether, from the perspective of the electric utilities' ratepayers, time and experience have proven the Generating Performance Incentive Factor (GPIF) mechanism, adopted by the Florida Public service Commission (Commission) in 1980 to provide an incentive to utilities to maximize efficiency of power plant operation, to be effective and equitable. Mr. Ross concludes that a quirk in the design of the GPIF methodology has led to the anomalous result of utilities earning GPIF rewards as efficiency does not improve, and even as efficiency declines. He proposes measures, in the form of modifications to GPIF methodology, designed to ensure that customers are not required to fund rewards in the absence of improvements to efficiency.

2. EXHIBITS:

Witness for Citizens prefiled the following exhibits:

Patricia W. Merchant

(PWM-1) Curriculum Vitae

(PWM-2) Gulf Power Company Rate Case MFRs - Docket No. 010949-EI – Schedule of Fuel Inventory

James A. Ross

(Appendix A) Qualification of James A. Ross

(JAR-1) Calculation and Analysis of GPIF Incentive Dollars

(JAR-2) EAF and Heat Rate Analysis, Individual Units

3. STATEMENT OF BASIC POSITION

Soon after implementing the current version of the fuel cost recovery clause, the

Commission adopted the Generating Performance Incentive Factor, or GPIF, to operate in conjunction with the clause. The purpose of the GPIF was to provide an incentive to utilities to strive to maximize the availability and thermal efficiency (heat rate) of their generating units. The utilities earn rewards or penalties based on whether they meet or fall short of targets set for each parameter. However, under the current methodology the targets are a function of recent experience. If recent experience has been one of disappointing performance, the bar for the next period is set lower. As a result, utilities have earned rewards when performance showed no material improvement, and even when performance declined. The Commission should adopt measures proposed by OPC witness James Ross, so that customers will fund rewards only upon a showing of meaningful improvements in efficiency.

Further, the issue has been raised regarding the appropriate mechanism for recovery of the natural gas storage costs to be included in the fuel factor. The following types of charges for natural gas storage are appropriate for inclusion in the fuel clause: a Firm Storage Monthly Demand Charge based on the amount of storage space reserved; a variable Injection and Withdrawal Charge based on the gas injection and withdrawal from storage; and a Fuel Charge calculated on a percentage of all volumes of gas received for injection. Carrying costs of natural gas inventory are currently and appropriately recovered through base rates.

With respect to the outage extension at FPL's Turkey Point Unit 3 which was caused by a drilled hole in the pressurized piping, the $6.1 in incremental fuel cost should be removed from the cost of fuel and not charged to the ratepayers. The damage to FPL's Turkey Point Unit 3 was inside the facility. The security measures employed at this facility are clearly under management's control. To charge the ratepayers for the increased fuel cost that resulted from this incident and damage to the system is inappropriate.

Regarding the costs associated with FPL's proposed participation in the Southeast Supply Header Pipeline Project, the approval of this project through the fuel clause is premature. FPL should be required to demonstrate the expected financial impact of this project to FPL's customers, and whether this project is prudent and economical compared to other alternative projects considered, and also whether the costs are appropriate to be recovered through the fuel clause. Given the truncated nature to the annual fuel proceedings, FPL should be required to file a separate petition for recovery of this project to allow parties sufficient opportunity to review the project in a comprehensive and through manner.

Concerning at what point in time should a utility notify the Commission that an over or under recovery exceeds 10% of the projected fuel costs, the utilities should be required to notify the Commission by March 31st of each year. First, this would provide the utility, Commission staff, and other parties approximately six months of actual data to compare with the projected fuel cost. Secondly, March 31st would provide sufficient time to conduct a hearing, if necessary, on a mid-course correction.

4. STATEMENT OF FACTUAL ISSUES AND POSITIONS

ISSUE 1: **What are the appropriate fuel adjustment true-up amounts for the period January 2005 through December 2005?**

OPC: No position at this time.

ISSUE 2: **What are the appropriate estimated/actual fuel adjustment true-up amounts for the period January 2006 through December 2006?**

OPC: No position at this time.

ISSUE 3: **What are the appropriate total fuel adjustment true-up amounts to be collected/refunded from January 2007 to December 2007?**

OPC: No position at this time.

ISSUE 4: **What is the appropriate revenue tax factor to be applied in calculating each investor-owned electric utility's levelized fuel factor for the projection period January 2007 through December 2007?**

OPC: No position at this time.

ISSUE 5: **What are the appropriate projected net fuel and purchased power cost recovery amounts factor to be included in the recovery factor for the period January 2007 through December 2007?**

OPC: No position at this time.

ISSUE 6: **What are the appropriate levelized fuel cost recovery factors for the period January 2007 through December 2007?**

OPC: No position at this time.

ISSUE 7: **What are the appropriate fuel recovery line loss multipliers to be used in calculating the fuel cost recovery factors charges to each rate class/delivery voltage level class?**

OPC: No position at this time.

ISSUE 8: **What are the appropriate fuel cost recovery factors for each rate class/delivery voltage level class adjusted for line losses?**

OPC: No position at this time.

__ISSUE 9__: **What should be the effective date of the fuel adjustment charge and capacity cost recovery charge for billing purposes?**

__OPC__: No position at this time.

__ISSUE 10__: **What are the appropriate actual benchmark levels for calendar year 2006 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?**

__OPC__: No position at this time.

__ISSUE 11__: **What are the appropriate estimated benchmark levels for calendar year 2007 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?**

__OPC__: No position at this time.

__ISSUE 12__: **What is the appropriate methodology for calculating over and under recoveries of projected fuel costs, pursuant to Commission Order Nos. 13694 and PSC-98-0691?**

__OPC__: No position at this time.

__ISSUE 13__: **At what point in time should a utility notify the Commission that an over or under recovery exceeds 10% of the projected fuel costs?**

__OPC__: The utilities should be required to notify the Commission by March 31st of each year whether the utilities are experiencing and over or under recovery exceeding 10% of the projected fuel costs. First, this would provide the utility, Commission staff, and other parties approximately six months of actual data to compare with the projected fuel cost. Secondly, March 31st would provide sufficient time to conduct a hearing, if necessary, on a mid-course correction.

<u>ISSUE 14</u>: **What are the appropriate credits for emissions allowances for power sales for each investor-owned electric utility for the years 2005 through 2007?**

<u>OPC</u>: No position at this time.

<u>COMPANY SPECIFIC ISSUES.</u>

<u>Progress Energy Florida</u>

<u>ISSUE 15A</u>: **Has PEF adequately mitigated the price risk for natural gas, residual oil, and purchased power for the years 2005 through 2007?**

<u>OPC</u>: No position at this time.

<u>*ISSUE 15B</u>: **Were the prices that PEF paid to Progress Fuel Corporation for coal reasonable in amount? If not, what adjustment should be made?**

<u>OPC</u>: This issue is part of the spin off docket and should be removed from the 060001 Docket Issue List.

<u>Florida Power & Light Co. (FPL)</u>

<u>ISSUE 16A</u>: **Has FPL adequately mitigated the price risk for natural gas, residual oil , and purchased power for the years 2005 though 2007?**

<u>OPC</u>: No position at this time.

<u>ISSUE 16B</u>: **Are the costs associated with FPL's proposed participation in the Southeast Supply Header Pipeline Project appropriate for recovery through the fuel cost recovery clause beginning in 2008?**

<u>OPC</u>: The approval of this project through the fuel clause is premature. FPL should be required to demonstrate the expected financial impact of this project to FPL's customers, and whether this project is prudent and economical compared to other alternative projects considered, and also whether the costs are appropriate to be recovered through the fuel clause. Given the truncated nature to the annual fuel proceedings, FPL should be required to file a separate petition for recovery of this project to allow parties sufficient opportunity to review the project in a comprehensive and through manner.

ISSUE 16C: **What is the appropriate calculation of fuel saving associated with the addition of Turkey Point Unit 5?**

OPC: No position at this time.

ISSUE 16E: **Should the Commission approve FPL's proposal to levelize the Residential 1000 kWh Bill by offsetting the Generation base Rate Adjustment (GBRA) for Turkey Point Unit 5 with the fuel savings attributable to this new unit?**

OPC: No position at this time.

ISSUE 16F: **What was the additional fuel cost incurred as a result of the outage extension at Turkey Point Unit 3 in March and April, 2006?**

OPC: The net additional fuel cost incurred as a result of the Turkey Point 3 five-day outage extension was $6.1 million.

ISSUE 16G: **With respect to the outage extension at Turkey Point Unit 3 which was caused by a drilled hole in the pressurized piping, should customers of FPL be responsible for the additional fuel cost incurred as a result of the extension?**

OPC: No. The $6.1 in incremental fuel cost should be removed from the cost of fuel and not charged to the ratepayers. The damage to FPL's Turkey Point Unit 3 was inside the facility. The security measures employed at this facility are clearly under management's control. To charge the ratepayers for the increased fuel cost that resulted from this incident and damage to the system is inappropriate.

***ISSUE 16H: What is the appropriate regulatory treatment of the base gas requirement for the MoBay gas storage contract?**

OPC: This issue is to be heard in Docket No. 060362-EI..

***ISSUE 16I: What is the appropriate regulatory treatment for the carrying costs associated with any unamortized balance of MoBay base gas?**

OPC: This issue is to heard in Docket No. 060362-EI.

***ISSUE 16J: What is the appropriate regulatory treatment for the carrying costs associated with the MoBay and Bay Gas inventory?**

OPC: This issue is to be heard in Docket No. 060362-EI.

Florida Public Utilities Company

ISSUE 17A: Are FPUC's purchased power costs as proposed for recovery in its 2007 fuel factor and as reflected in its purchased power agreements, prudent and reasonable?

OPC: No position at this time.

Gulf Power Company

ISSUE 18A: What is the appropriate mechanism for recovery of the natural gas storage costs that are included in the calculation of Gulf's 2007 fuel factor?

OPC: Gulf incurs the following types of charges for natural gas storage which should be recovered through the fuel clause: a Firm Storage Monthly Demand Charge based on the amount of storage space reserved; a variable Injection and Withdrawal Charge based on the gas injection and withdrawal from storage; and a Fuel Charge calculated on a percentage of all volumes of gas received for injection. Carrying costs of natural gas inventory are currently and appropriately recovered through base rates.

ISSUE 18B: Has Gulf adequately mitigated the price risk for natural gas and purchased power for 2005 through 2007?

OPC: No position at this time.

ISSUE 18C: Has Gulf taken reasonable and prudent steps to find replacement fuel at reasonable costs in order to mitigate the coal shortfall caused by a contract dispute with a coal provider?

OPC: No position at this time.

Tampa Electric Company

ISSUE 19A: What is the appropriate mechanism for recovery of the natural gas storage costs included in the calculation of TECO's 2007 fuel factor?

OPC: TECO incurs the following types of charges for natural gas storage which should be recovered through the fuel clause: a Firm Storage Monthly Demand Charge based on the amount of storage space reserved; a variable Injection and Withdrawal Charge based on the gas injection and withdrawal from storage; and a Fuel Charge calculated on a percentage of all volumes of gas received for injection. Carrying costs of natural gas inventory are currently and appropriately recovered through base rates.

ISSUE 19B: Has TECO taken reasonable steps to date to pursue rail transport of coal as required by Order No. PSC-04-0999-FOF-EI?

OPC: No position at this time.

ISSUE 19C: Has TECO adequately mitigated the price risk for natural gas and purchased power for 2005 through 2007?

OPC: No position at this time.

GENERIC GENERATING PERFORMANCE INCENTIVE FACTOR ISSUES

ISSUE 20: **What is the appropriate generation performance incentive factor (GPIF) reward or penalty for performance achieved during the period January 2005 through December 2005 for each investor-owned electric utility subject to the GPIF?**

OPC: No position at this time.

ISSUE 21: **Should the Commission amend or modify the existing GPIF mechanism so as to incorporate a "dead band" around the scale of Generating Performance Incentive Points in the amounts proposed by OPC?**

OPC: Yes. Under the current methodology the customers have been called on to fund rewards for utilities whose generating efficiency, as measured by heat rate and availability, have not improved and even when efficiency has declined. This is both counterintuitive and unfair to ratepayers. In this proceeding, the Commission should implement a "deadband" around the calculated utility scores, so that only a utility that has demonstrated an improvement of a magnitude that warrants it will receive a monetary reward paid by customers. In Docket 070001, the Commission should consider coupling with this deadband a set of absolute values for each unit that the respective utilities would be required to meet or exceed in order to earn a reward.

ISSUE 22: **If the "dead band" amendment to the GPIF mechanism is implemented by the Commission should it be applied for the current year so that the rewards or penalties are applied commencing January 1, 2007?**

OPC: Yes.

ISSUE 23: **Should OPC's proposed modification to the GPIF methodology be approved?**

OPC: Yes. Under the current methodology the customers have been called on to fund rewards for utilities whose generating efficiency, as measured by heat rate and availability, have not improved and even when efficiency has declined. This is both counterintuitive and unfair to ratepayers. In this proceeding, the Commission should implement a "deadband" around the calculated utility scores, so that only a utility that has demonstrated an improvement of a magnitude that warrants it will receive a monetary reward paid by customers. In Docket 070001, the Commission should consider coupling with this deadband a set of absolute values for each unit that the respective utilities would be required to meet or exceed in order to earn a reward.

ISSUE 24: **What should the GPIF targets/ranges be for the period January 2007 through December 2007 for each investor-owned electric utility subject to the GPIF?**

OPC: No position at this time.

COMPANY-SPECIFIC GENERATING PERFORMANCE INCENTIVE FACTOR ISSUES

Progress Energy Florida

No company-specific issues for Florida Power & Light Company have been identified at this time.

Florida Power & Light Company

No company-specific issues for Florida Power & Light Company have been identified at this time.

Gulf Power Company

No company-specific issues for Gulf Power Company have been identified at this time.

Tampa Electric Company

No company-specific issues for Tampa Electric Company have been identified at this time.

GENERIC CAPACITY COST RECOVERY FACTOR ISSUES

ISSUE 29: **What are the appropriate cost recovery true-up amounts for the period January 2005 through December 2005??**

OPC: No position at this time.

ISSUE 30: **What are the appropriate estimated/actual capacity cost recovery true-up amounts for the period January 2006 through December 2006?**

OPC: No position at this time.

ISSUE 31: **What are the appropriate total capacity cost recovery true-up amounts to be collected/refunded during the period January 2007 through December 2007?**

OPC: No position at this time.

ISSUE 32: **What are the appropriate projected net purchased power capacity cost recovery amounts to be included in the recovery factor for the period January 2007 through December 20007?**

OPC: No position at this time.

ISSUE 33: **What are the appropriate capacity cost recovery factors for the period January 2007 through December 2007?**

OPC: No position at this time.

ISSUE 34: **What are the appropriate jurisdictional separation factors for capacity revenues and costs to be included in the recovery factor for the period January 2007 through December 2007?**

OPC: No position at this time.

ISSUE 35: **What are the appropriate credits for transmission allowances for the power sales for each investor-owned electric utility for the years 2005 through 2007?**

OPC: No position at this time.

COMPANY-SPECIFIC CAPACITY COST RECOVERY FACTOR ISSUES

Progress Energy Florida

No company-specific issues for Progress Energy Florida have been identified at this time.

Tampa Electric Company

No company-specific issues for Tampa Electric Company have been identified at this time.

Florida Power & Light Company

ISSUE 38A: **Pursuant to the stipulation signed by all parties to the prior rate proceeding and approved in Order No. PSC-05-0902-S-EI, issued September 14, 2005, in Docket No. 050045-EI what is the appropriate Generation Base Rate Adjustment (GBRA) for Turkey Point Unit 5?**

OPC: No position at this time.

ISSUE 38B: **Has FPL correctly calculated the GBRA as 3.271%?**

OPC: No position at this time.

ISSUE 38C: **Should the Commission approve FPL's proposal to recover the projected security costs associated with the recently issued by the North American Reliability Council (NERC) Cyber Security**

Standards through the Capacity Cost Recovery Clause?

OPC: No position at this time.

ISSUE 38D: Should CILC-1 Load Control (nonfirm) demands be included in developing capacity cost recovery factors?

OPC: No position at this time.

Gulf Power Company

No company-specific issues for Gulf Power Company have been identified at this time.

5. STIPULATED ISSUES:

None.

6. PENDING MOTIONS:

None.

7. STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:

Citizens have no pending requests for claims for confidentiality.

8. OBJECTIONS TO QUALLIFICATION OF WITNESSESAS AN EXPERT:

Citizens do not expect to challenge the qualification of any witness.

9. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which the Office of Public Counsel cannot comply.

Dated this 6th day of October, 2005.

Respectfully submitted,

s/ Patricia A. Christensen
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail and U.S. Mail on this 6th day of October, 2006, to the following:

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