

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: June 24, 2022

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Higgins) *ALM*
Division of Economics (Coston) *JGH*
Office of the General Counsel (Brownless, Sandy) *JSC*

RE: Docket No. 20220001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

AGENDA: 07/07/22 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: La Rosa

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On June 14, 2022, Florida Public Utilities Company (FPUC or Company), filed for a mid-course correction (MCC Petition) of its 2022 purchased power agreement (PPA) cost recovery factors.¹ FPUC's currently-effective 2022 PPA cost recovery factors were approved at the November 2, 2021 final hearing.² FPUC is a non-generating electric utility that relies solely on PPAs for its energy requirements. Further, by contractual terms, market fuel prices are essentially variable pass-through expenses that equate to changes in total PPA costs to the Company. The PPAs include demand and non-demand related costs that are recovered through the PPA cost recovery factors on customers' bills. FPUC is only requesting to adjust the non-demand related portion of the PPA cost recovery factors.

¹Document No. 03889-2022.

²Order No. PSC-2021-0442-FOF-EI, issued November 30, 2021, in Docket No. 20210001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.*

Underlying the approval of FPUC's 2022 factors was the Florida Public Service Commission's (Commission) review of the Company's projected 2022 PPA-related costs. These PPA costs are recovered through the fuel and purchased power cost recovery factors that are set/reset annually in this docket. These factors are usually effective for a period of 12 months. However, by Rule 25-6.0424, Florida Administrative Code (F.A.C.), the Commission requires that if an investor-owned electric utility's fuel (including PPA costs) or capacity cost recovery position is projected to exceed a specified range within the standard 12-month timeframe, then the utility shall promptly notify the Commission.

Mid-Course Corrections

Mid-course corrections are used by the Commission between annual clause hearings whenever costs deviate from revenue by a significant margin. Under Rule 25-6.0424, F.A.C., which is commonly referred to as the "mid-course correction rule," a utility must notify the Commission whenever it expects to experience an under- or over-recovery of certain service costs greater than 10 percent. The notification of a 10 percent cost-to-revenue variance shall include a petition for mid-course correction to the fuel cost recovery or capacity cost recovery factors, or shall include an explanation of why a mid-course correction is not practical. The mid-course correction rule and its codified procedures are further discussed throughout this recommendation.

FPUC's Petition for Mid-Course Correction

Through its MCC Petition, FPUC is proposing a mid-course correction of its currently-approved PPA charges. Specifically, the Commission is being asked to approve a moderated increase to FPUC's PPA cost recovery factors due to the Company experiencing a significant under-recovery of PPA costs. The proposed increase to FPUC's currently-approved PPA charges is a result of 2021 PPA costs being greater than originally estimated. This topic is discussed further in Issue 1.

The Company is requesting that the proposed revised PPA cost recovery factors and associated tariffs become effective beginning with the first billing cycle of August 2022. The proposed effective date is further discussed in both Issues 1 and 2.

The Commission is vested with jurisdiction over the subject matter of this proceeding by the provisions of Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1: Should the Commission modify FPUC's currently-approved PPA cost recovery factors for purposes of addressing the period-ending 2021 under-recovery of PPA costs?

Recommendation: Yes. Staff recommends the Commission approve adjustments to FPUC's currently-approved PPA cost recovery factors to incorporate the Company's period-ending 2021 under-recovery of PPA costs in the amount of \$3,790,314. (Higgins)

Staff Analysis: FPUC participated in the Commission's most-recent fuel cost hearing which took place on November 2, 2021. The Fuel Order issued with respect to FPUC set forth the Company's PPA cost recovery factors effective with the first billing cycle of January 2022.³ However, as discussed below, FPUC's currently-authorized PPA cost recovery factors have and continue to be insufficient to recover its PPA-related revenue requirement by a significant margin.

Mid-Course Correction

FPUC filed for a mid-course correction of its PPA-related charges on June 14, 2022.⁴ Due to the fact the Company is requesting to recover only its actual 2021 true-up through this MCC review, its petition satisfies the filing requirements of Rule 25-6.0424(1)(b), F.A.C.

Preceding the filing of its instant MCC Petition and in accordance with the noticing requirement of Rule 25-6.0424(2), F.A.C., FPUC filed a letter on May 18, 2022, informing the Commission that it was projecting an under-recovery position of greater than 10 percent for the 2022 recovery period.⁵ In its letter, FPUC stated it would likely be filing a petition for mid-course correction of its PPA charges in short order, as the Company did not anticipate future conditions will mitigate the projected PPA under-recovery for the period.

FPUC states the market price for natural gas has significantly trended upward since its last rate adjustment, which in turn increased its purchased power costs. This is the case for both the 2021 and 2022 recovery periods. However, at this time, the Company is only proposing to adjust its PPA cost recovery factors to incorporate its unrecovered actual 2021 costs. The Company believes requesting to only recover its remaining unrecovered 2021 costs through the instant proceeding is appropriate due to the current volatility of the natural gas market. Further, given the magnitude of the currently-projected under-recovery through July 2022, or (\$9,330,463), the Company believes mitigating the overall bill impact to its customers is also appropriate.⁶

Period-Ending 2021 Recovery Position

Through its *Petition for Approval of Actual/Estimated True-Up Amount* (Actual/Estimated Petition), FPUC projected a PPA cost over-recovery of \$2,257,470 for period-ending 2021, which is the amount recognized in its currently-authorized 2022 PPA factors.⁷ Staff notes that

³Order No. PSC-2021-0442-FOF-EI.

⁴Document No. 03889-2022.

⁵Document No. 03023-2022.

⁶Please see Document No. 04179-2022, "Revised Exhibit A," for the revised true-up figure.

⁷Order No. PSC-2021-0442-FOF-EI.

also recognized in the derivation of this amount were dollars associated with a refund related to the 2021 state corporate income tax savings (i.e., tax rate reduction) contemplated by a prior-approved settlement agreement in the amount of \$75,358.⁸ However, the actual amount of tax savings for calendar 2021 was \$112,605, which is the amount reflected in FPUC's actual 2021 true-up.⁹ The Company's actual 2021 true-up is an under-recovery of (\$3,790,314) which is the amount being proposed for recovery through this proceeding. FPUC's actual 2021 true-up has been audited by Commission audit staff.¹⁰

Concerning the variance between projected and actual 2021 PPA costs, FPUC experienced the same patterns as all other electric investor-owned public utilities in Florida. Duke Energy Florida, LLC, Florida Power & Light Company (to include the former Gulf Power Company), and Tampa Electric Company have all required mid-course corrections of their then-current fuel cost recovery rates.¹¹ These mid-course corrections were primarily due to significant increases in the market price for natural gas during the second half of 2021. Staff further discusses 2021 natural gas prices below. For that period, or from July through December 2021, FPUC under-recovered \$5,631,414.¹² The Company had last estimated an over-recovery of \$453,042 for those same months as reported through its 2021 Actual/Estimated Petition.¹³

The market price for natural gas increased sharply during the latter half of last year. Specifically, the price of natural gas (Henry Hub) averaged \$3.25 per Million British thermal unit (MMBtu) for the months of January through June, 2021, and \$4.57 per MMBtu for the months of July through December, 2021. This represents an increase of 40.4 percent.¹⁴ Staff notes some factors driving the increase in natural gas prices at that time were lower than average storage levels and uncertainty regarding (then) near-term production levels. The price movement of natural gas during second half of 2021 is the primary or direct underlying cause of the Company's under-recovery of PPA costs for the year.

Table 1-1 shows the accounting associated with FPUC's actual 2021 PPA cost true-up.

⁸Order No. PSC-2020-0083-PAA-EI, issued March 20, 2020, in Docket No. 20200033-EI, *In re: Joint motion for approval of Amendment No. 1 to stipulation and settlement, by Florida Public Utilities Company and Office of Public Counsel.*

⁹Document No. 02208-2022.

¹⁰See Document No. 02854-2022 for the Commission's Audit Report concerning FPUC's accounting of calendar-year-applicable 2021 PPA-related revenues and expenses.

¹¹Order No. PSC-2022-0061-PCO-EI, issued February 17, 2022, in Docket No. 20220001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*, Order No. PSC-2021-0460-PCO-EI, issued December 15, 2021, in Docket No. 20210001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*, and Order No. PSC-2022-0122-PCO-EI, issued March 18, 2022, in Docket No. 20220001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.*

¹²Document No. 02208-2022.

¹³Document No. 08344-2021.

¹⁴Historical prices of natural gas were sourced through the United States Energy Information Administration. The relevant data can be found via the following link: <https://www.eia.gov/dnav/ng/hist/rngwhhdM.htm>

**Table 1-1
 2021 Actual True-Up Derivation**

Description	Amount
Total PPA-Related Cost for 2021	\$49,477,917
Period PPA-Related Revenue for 2021 ¹⁵	\$42,339,324
Difference	(\$7,138,593)
Beginning True-Up in 2021	\$3,235,074
Interest Provision	\$600
State Income Tax Refund for 2021	\$112,605
Actual 2021 True-Up (<i>requested MCC amount</i>)	(\$3,790,314)

Sources: Document Nos. 10083-2021, 02208-2022, and 03889-2022.

Following the methodology prescribed in Rule 25-6.0424(1)(a), F.A.C., the mid-course percentage is equal to the estimated end-of-period total net true-up amount, including interest, divided by the current period’s total actual and estimated jurisdictional fuel revenue applicable to period. In this instance and using actual 2021 data, the calculation is as follows: (\$3,790,314) / \$42,636,492.¹⁶ This calculation results in a “mid-course correction level” of (8.9) percent. Although not requested by the Company in the instant petition, the currently-projected under-recovery for 2021 and 2022 costs through July is (\$9,330,463).¹⁷ To mitigate the impact on customer rates, the Company is only requesting to recover the remaining amount of actual 2021 costs at this time.

Fuel Factor

FPUC’s currently-approved annual levelized fuel, (i.e., fuel portion of the PPA cost recovery factor) factor beginning January 2022 is 4.580 cents per kilowatt-hour (kWh).¹⁸ The Company is requesting to increase its currently-approved 2022 annual levelized fuel, (i.e., fuel portion of the PPA cost recovery factor) factor to 6.164 cents per kWh, or by 34.6 percent.¹⁹ Staff notes that the PPA factors ultimately billed to customers also include the demand-related costs of FPUC’s PPAs. Thus, the PPA cost recovery factors, as shown on Appendix A, are greater than the fuel-only values quoted in this paragraph.

¹⁵Amount shown here does not include the 2020 total true-up, or “carry forward” over-recovery of \$297,168. See Order No. PSC-2020-0439-FOF-EI, issued November 16, 2020, in Docket No. 20200001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive Factor* for approval of this true-up amount.

¹⁶The total period-applicable revenue figure (denominator) includes the 2020 total true-up over-recovery of \$297,168.

¹⁷Please see Document No. 04179-2022, “Revised Exhibit A,” for the revised true-up figure.

¹⁸Order No. PSC-2021-0442-FOF-EI.

¹⁹Document No. 03889-2022. Recovery factor shown on “Exhibit A,” page 2 of 9, Schedule E1, line 43.

Bill Impacts

Table 1-2 below shows the bill impact to a typical residential customer using 1,000 kWh of electricity a month associated with new PPA cost recovery factors. In the discussion below Table 1-2, staff addresses the impacts of the fuel MCC on non-residential customers:

**Table 1-2
 Monthly Residential Billing Detail for the First 1,000 kWh**

Invoice Component	Currently-Approved Charges Beginning January 2022 ²⁰ (\$)	Proposed New Charges August Through December 2022 (\$)	Approved to Proposed Difference (\$)	Approved to Proposed Difference (%)
Base Charge	\$40.68	\$40.68	\$0	-
Fuel (PPA) Charge	69.89	84.41	14.52	20.8%
Conservation Charge	1.34	1.34	0	-
Storm Surcharge (Michael/Dorian)	12.80	12.80	0	-
Gross Receipts Tax	<u>3.20</u>	<u>3.57</u>	0.37	11.6%
Total	<u>\$127.91</u>	<u>\$142.80</u>	<u>\$14.89</u>	11.6%

Sources: Document No. 10083-2021, Schedule E-10, and MCC Petition, Schedule E-10.

FPUC’s current total residential charge for the first 1,000 kWh of usage beginning January 2022 is \$127.91. If FPUC’s mid-course correction proposal is approved, the current total residential charge for the first 1,000 kWh of usage, beginning August 2022, will be \$142.80. This represents an increase of 11.6 percent. For non-residential customers, FPUC reported that based on average levels of usage and specific rate schedules, bill increases for small general service customers would be approximately 10.8 percent, bill increases for medium-size general service customers would be approximately 13.1 percent, and approximately 13.0 percent for general service large demand customers.²¹ FPUC’s proposed tariffs are shown on Appendix A to this recommendation.

Summary

Staff recommends the Commission approve adjustments to FPUC’s currently-approved PPA cost recovery factors to incorporate the Company’s period-ending 2021 under-recovery of PPA costs. Due to the potential bill impact, staff agrees with the Company’s effort to mitigate the overall impact of the total current under-recovery by only seeking to recover the 2021 actual true-up at this time. The revised PPA cost recovery factors associated with staff’s recommendation are shown on Appendix A.

²⁰Order No. PSC-2021-0442-FOF-EI.

²¹Document No. 04179-2022.

Conclusion

Staff recommends the Commission approve adjustments to FPUC's currently-approved PPA cost recovery factors to incorporate the Company's period-ending 2021 under-recovery of PPA costs in the amount of \$3,790,314.

Issue 2: If approved by the Commission, what is the appropriate effective date for FPUC's revised PPA cost recovery factors?

Recommendation: The PPA cost recovery factors, as shown on Appendix A, should become effective with the first billing cycle of August 2022. (Coston, Brownless)

Staff Analysis: In its petition, FPUC has requested that the revised PPA cost recovery factors become effective with the August 2022 billing cycle.

Over the last 20 years in the Fuel Clause docket, the Commission has considered the effective date of rates and charges of revised fuel (to include PPA) cost recovery factors on a case-by-case basis. The Commission has approved fuel cost recovery factor rate decreases effective sooner than the next full billing cycle after the date of the Commission's vote with the range between the vote and the effective date being from 25 to 2 days. The rationale for that action being that it was in the customers' best interests to implement the lower rate as soon as possible.²² With regard to fuel cost recovery factor rate increases, the Commission has approved an effective date of the revised factors ranging from 14 to 29 days after the vote.²³ In six of these cases, the Commission noted that the utility had given its customers 30 days' written notice before the date of the vote that a fuel cost recovery factor increase had been requested and provided the proposed effective date of the higher fuel factors.²⁴

In its MCC Petition, FPUC proposes to collect the actual 2021 under-recovery of PPA costs over five consecutive months, beginning with the first billing cycle of August 2022, and ending with

²²Order No. PSC-08-0825-PCO-EI, issued December 22, 2008, in Docket No. 080001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-09-0254-PCO-EI, issued April 27, 2009, in Docket No. 090001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-11-0581-PCO-EI, issued on December 19, 2011, in Docket No. 110001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-12-0342-PCO-EI, issued July 2, 2012, in Docket No. 120001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-2012-0082-PCO-EI, issued February 24, 2012, in Docket No. 120001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-15-0161-PCO-EI, issued April 30, 2015, in Docket No. 150001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-2018-0313-PCO-EI, issued June 18, 2018, in Docket No. 20180001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order PSC-2020-0154-PCO-EI, issued May 14, 2020, in Docket No. 20200001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*.

²³Order No. PSC-03-0381-PCO-EI, issued March 19, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-03-0382-PCO-EI, issued March 19, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-03-0400, issued March 24, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-03-0849-PCO-EI, issued July 22, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-09-0213-PCO-EI, issued April 9, 2009, in Docket No. 090001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-2019-0109-PCO-EI, issued March 22, 2019, in Docket No. 20190001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*.

²⁴Order No. PSC-09-0213-PCO-EI; Order No. PSC-2019-0109-PCO-EI.

the last billing cycle of December 2022. In the instant case, there are 28 days between the Commission's vote on July 7th and the beginning of FPUC's August billing cycle (August 4th).²⁵

Concerning advisement of the instant request, the Company plans to issue a press release before the end of June informing its customers of the MCC proposal. The press release will include a link to the Company's website for further information regarding the MCC Petition. Further, FPUC will begin including a notice on customer bills starting with the first billing cycle of July (scheduled for July 7th). The bill notice will inform FPUC's customers of the proposed rate increase and include a link to the Company's website for additional information. If the MCC Petition is ultimately approved, the website will be updated with a letter informing customers that new PPA-related charges have been approved along with a comparison of the current and new rates.²⁶

Conclusion

Staff recommends that the PPA cost recovery factors, as shown on Appendix A, become effective with the first billing cycle of August 2022.

²⁵Document No. 04179-2022.

²⁶*Id.*

Issue 3: Should this docket be closed?

Recommendation: No. The 20220001-EI docket is an on-going proceeding and should remain open. (Brownless)

Staff Analysis: The fuel docket is on-going and should remain open.

Florida Public Utilities Company
 F.P.S.C. Electric Tariff
 No. 65
 Third Revised Volume No. I

Ninth ~~Eighth~~-Revised Sheet No. 65
 Cancels Eighth ~~Seventh~~-Sheet

RATE ADJUSTMENT RIDER – NORTHWEST FLORIDA DIVISION

Applicability

Electric service under all rate schedules for the Northwest Florida Division, which specify that rates are subject to adjustment in accordance with the provisions of the Company's Rate Adjustment Rider.

Total Purchased Power Cost Recovery Clause

The total purchased power cost adjustment shall be applied to each kilowatt hour delivered and shall be computed in accordance with the formula prescribed by the Florida Public Service Commission. The total purchased power cost adjustment for the period ~~August~~ January-1, 2022 through December 31, ~~20~~-2022 is as follows:

<u>Rate Class</u>	<u>Rate Schedule</u>	<u>Levelized Adjustment</u>
Residential (1st 1000 KWH's)	RS	<u>8.441</u> 6.989 ¢ / KWH
Residential (above 1000 KWH's)	RS	<u>9.691</u> 8.239 ¢ / KWH
General Service	GS	<u>8.852</u> 7.389 ¢ / KWH
General Service-Demand	GSD	<u>8.281</u> 6.795 ¢ / KWH
Lighting Service	LS	<u>6.547</u> 4.957 ¢ / KWH
General Service-Large Demand	GSLD	<u>8.032</u> 6.531 ¢ / KWH
General Service-Large Demand 1	GSLD 1	Not Applicable At This Time

<u>Time of Use Rate Class</u>	<u>Rate Schedule</u>	<u>Levelized Adjustment</u>
		<u>On-Peak</u> <u>Off Peak</u>
Residential TOU	RST - EXP	<u>16.841</u> 15.389 ¢ / KWH <u>4.541</u> 3.089 ¢ / KWH
General Service TOU	GST - EXP	<u>12.852</u> 11.389 ¢ / KWH <u>3.852</u> 2.389 ¢ / KWH
General Service-Demand TOU	GSDT - EXP	<u>12.281</u> 10.795 ¢ / KWH <u>5.031</u> 3.545 ¢ / KWH
General Service-Large Demand TOU	GSLDT - EXP	<u>14.032</u> 12.531 ¢ / KWH <u>5.032</u> 3.531 ¢ / KWH
Interruptible - TOU	IS - EXP	<u>6.532</u> 5.031 ¢ / KWH <u>8.032</u> 6.531 ¢ / KWH

Energy Conservation Cost Recovery Clause

Each base energy rate per KWH of the above rate schedules for the period January 1, 2022 through December 31, 2022 shall be increased by 0.134 ¢/KWH of sales to recover conservation related expenditures by the Company. This adjustment is determined in accordance with the formula and procedures specified by the Florida Public Service Commission.

Tax Cost Recovery

There will be added to all bills rendered for electric service a proportionate share of all license fees and taxes imposed by any governmental authorities after November 1, 1946, to an extent sufficient to cover excess increased taxes or license fees.

Issued by: Jeffrey M. Householder, President & CEO

Effective:

Florida Public Utilities Company
 F.P.S.C. Electric Tariff
 No. 66
 Third Revised Volume No. I

~~Ninth~~ ~~Eighth~~ Revised Sheet No. 66
 Cancels ~~Eighth~~ ~~Seventh~~ Sheet

RATE ADJUSTMENT RIDER – NORTHEAST FLORIDA DIVISION

Applicability

Electric service under all rate schedules for the Northeast Florida Division which specify that rates are subject to adjustment in accordance with the provisions of the Company's Rate Adjustment Rider.

Total Purchased Power Cost Recovery Clause

The total purchased power cost adjustment shall be applied to each kilowatt hour delivered and shall be computed in accordance with the formula prescribed by the Florida Public Service Commission. The total purchased power cost adjustment for the period ~~August~~ ~~January~~-1, 2022 through December 31, 2022 is as follows:

<u>Rate Class</u>	<u>Rate Schedule</u>	<u>Levelized Adjustment</u>
Residential (1 st 1000 KWH's)	RS	8.441 6.989 ¢ / KWH
Residential (above 1000 KWH's)	RS	9.691 8.239 ¢ / KWH
General Service	GS	8.852 7.389 ¢ / KWH
General Service –Demand	GSD	8.281 6.795 ¢ / KWH
General Service –Large Demand	GSLD	8.032 6.531 ¢ / KWH
Lighting Service	LS	6.547 4.957 ¢ / KWH
General Service Large Demand 1	GSLD 1	Generation Demand \$ 5.41/ KW* Transmission Demand \$ 2.58/ KW* Energy 6.266 ¢ / KWH*

*Estimated for informational purposes only,
 Monthly rate will be billed at actual cost.

Energy Conservation Cost Recovery Clause

Each base energy rate per KWH of the above rate schedules for the period January 1, 2022 through December 31, 2022 shall be increased by 0.134¢ / KWH of sales to recover conservation related expenditures by the Company. This adjustment is determined in accordance with the formula and procedures specified by the Florida Public Service Commission.

Tax Recovery

There will be added to all bills rendered for electric service a proportionate share of all license fees and taxes imposed by any governmental authorities after January 1, 1945, to an extent sufficient to cover excess increased taxes or license fee.

Issued by: Jeffrey M. Householder, President & CEO

Effective: