

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: February 23, 2023

TO: Office of Commission Clerk (Teitzman)

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

RE: Docket No. 20230001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

AGENDA: 03/07/23 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: La Rosa

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On January 23, 2023, Tampa Electric Company (TECO or Company), filed for revision of its currently-effective 2023 fuel cost recovery factors.¹ The Company subsequently filed an amended petition on February 8, 2023 (MCC Petition).² TECO's currently-effective 2023 fuel factors were approved last year at the November 17-18, and December 6, 2022 final hearing.³ Underlying the approval of TECO's 2023 factors was the Florida Public Service Commission's (Commission) review of the Company's projected 2023 fuel- and capacity-related costs. These costs are recovered through fuel and capacity cost recovery factors that are set/reset annually in this docket. However, during the 2022 annual fuel clause cycle, TECO proposed not to include

¹Document No. 00380-2023.

²Document No. 01008-2023.

³Order No. PSC-2023-0026-FOF-EI, issued January 6, 2023, in Docket No. 20230001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.*

its unrecovered 2022 fuel costs in the fuel factors approved at the December 6th final hearing. Instead, TECO indicated it would be petitioning for recovery of those costs through a separate filing. The primary rationale for this course of action is that the extreme volatility of the natural gas prices in 2022 made a reliable projection of final 2022 costs impractical. The Commission subsequently ordered TECO's filing to be submitted on or before January 23, 2023.⁴

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, Florida Administrative Code (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.

TECO's MCC Petition

TECO's net 2022 under-recovery of fuel cost is approximately \$518 million. Through its MCC Petition, TECO is proposing to both increase its currently-effective 2023 cost recovery factors by approximately \$65 million, and defer approximately \$296 million for recovery in 2024. The Company also incorporated 2023 cost reductions into its proposal that are further discussed in Issue 1. TECO is requesting that its revised fuel factors and associated tariff become effective beginning with the first billing cycle for April 2023. 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.

⁴Order No. PSC-2023-0026-FOF-EI.

Discussion of Issues

Issue 1: Should the Commission modify TECO's currently-approved fuel cost recovery factors for the purpose of incorporating its actual 2022 under-recovery of fuel costs?

Recommendation: Yes. Staff recommends the Commission approve adjustments to TECO's currently-approved fuel cost recovery factors to incorporate a portion of the Company's actual 2022 under-recovery of fuel costs in the amount of \$64,989,253. (Higgins, Zaslow, Kelley)

Staff Analysis: TECO participated in the Commission's most-recent fuel hearing which took place during November 17-18, 2022, and December 6, 2022, in this docket. The fuel order stemming from this proceeding set forth the Company's fuel and capacity cost recovery factors effective with the first billing cycle of January 2023.⁵ However, as discussed below, the currently-authorized fuel cost recovery factors do not include certain fuel costs that were incurred in 2022. In support of the deferral, TECO argued that the 2022 natural gas market was so volatile that its total annual fuel (natural gas) cost could not be accurately predicted and that it was better to wait and use actual costs for setting rates with respect to the 2022 under-recovery. Some factors that influenced natural gas prices in 2022 include reduced storage levels, strong liquefied natural gas exports, global military conflict, and capital/expenditure discipline being practiced by drilling companies.

TECO Fuel and Purchased Power Mid-Course Correction

TECO initially filed for a mid-course correction of its fuel charges on January 23, 2023.⁶ This filing was amended on February 8, 2023.⁷ The Company's MCC petition and supporting documentation satisfies the filing requirements of Rule 25-6.0424(1)(b), F.A.C. In accordance with the noticing requirement of Rule 25-6.0424(2), F.A.C., TECO filed a letter on April 21, 2022, informing the Commission that it was projecting an under-recovery position of greater than 10 percent for the period ending on December 31, 2022.⁸ However, in analyzing settlement prices for natural gas, the Company determined that the continuing price volatility warranted deferring a decision to file for a mid-course correction.

The exact factors proposed in this proceeding are currently contemplated to be charged for 9 months. As is typical procedure, later this year newly developed 12-month-applicable factors will be proposed for implementation beginning with the first billing cycle of January 2024.

Actual Period-Ending 2022 Fuel Cost Recovery Position

TECO's net fuel cost recovery position at the end of 2022 is an under-recovery of \$517,989,768.⁹ TECO recovered its final 2021 true-up amount through a prior mid-course correction.¹⁰

⁵Order No. PSC-2023-0026-FOF-EI.

⁶Document No. 00380-2023.

⁷Document No. 01008-2023.

⁸Document No. 02571-2022.

⁹Document No. 01008-2023.

¹⁰Order No. PSC-2023-0026-FOF-EI.

Increased pricing for natural gas was the primary driver of the 2022 under-recovery identified above. More specifically, the Company estimated an annual natural gas cost of \$4.98 per million British thermal unit (MMBtu) in its last mid-course correction filing and derivation of customer fuel rates.¹¹ This figure includes delivery costs. However, as indicated in the Company's December 2022 A-Schedule, TECO's average 2022 cost of natural gas was \$8.32 per MMBtu, representing a difference of 67.1 percent.¹² Natural gas-fired generation comprised approximately 85.8 percent of TECO's generation mix in 2022.¹³

Projected 2023 Fuel Cost Recovery Position

TECO's 2023 fuel-related revenue requirement decreased substantially since the filing of its last cost projection in September 2022.¹⁴ More specifically, the results of this updated estimate is a reduction in TECO's estimated 2023 fuel-related costs in the amount of (\$171,157,078).¹⁵ After accounting for carrying charges on the true-up balance, the net cost difference is (\$157,006,362). The amount of the 2022 under-recovery proposed for collection in 2023 is \$221,995,615. Thus, the proposed incremental amount for inclusion into 2023 rates is \$64,989,253.

The primary factor driving the change in projected 2023 fuel costs is lower assumed pricing for natural gas. More specifically, the underlying market-based natural gas price data used for the 2023 fuel cost projection was sourced on (5-day average ending) August 1, 2022.¹⁶ This underlying data was used to produce an estimated average 2023 delivered natural gas cost of \$7.49 per MMBtu.¹⁷ However, TECO now estimates its average cost of natural gas in 2023 will be \$5.92 per MMBtu, representing a decrease of 21.0 percent.¹⁸ The updated cost estimate was based on natural gas futures/prices sourced on (5-day average ending) December 30, 2022, or roughly five months from the previous estimate that was used to set current rates.¹⁹

Recovery Period and Interest Premium

As proposed, TECO's recovery period for its 2022 under-recovery of fuel costs is over 21 months (beginning April 2023 and ending December 2024).²⁰ TECO utilized the 30-day AA Financial Commercial Paper Rate to determine its 2022 interest amount.²¹ The projected 2023 interest rate was assumed to be the forecasted Federal Funds Rate sourced via a third party, namely "Refinitiv," of 0.263 percent (2023 monthly average).²²

¹¹Document No. 00350-2022.

¹²Document No. 00488-2023.

¹³*Id.*

¹⁴Document No. 05966-2022.

¹⁵Document No. 01008-2023.

¹⁶Document No. 00877-2023.

¹⁷Document No. 05966-2022.

¹⁸Document No. 01008-2023.

¹⁹Document No. 00877-2023.

²⁰Document No. 00380-2023.

²¹Document No. 00877-2023, and The Federal Reserve System (U.S. Federal Reserve) published Commercial Paper Rates which can be located via the following link: <https://www.federalreserve.gov/releases/cp/>

²²Document No. 00877-2023.

Mid-Course Correction Percentage

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, including interest, divided by the current period's total actual and estimated jurisdictional fuel revenue applicable to period, or $(\$360,983,406) / \$955,861,787$.²³ This calculation results in a mid-course correction level of (37.8) percent at December 31, 2023.

Fuel Factor

TECO's currently-approved annual levelized fuel factor beginning with the first January 2023 billing cycle is 4.825 cents per kilowatt-hour (kWh).²⁴ The Company is requesting to increase its currently-approved 2023 annual levelized fuel factor (beginning April 2023) to 5.239 cents per kWh, or by 8.6 percent.²⁵

Bill Impacts

Table 1-1 displays the bill impacts of the MCC on typical residential customers using 1,000 kWh of electricity a month. This table also includes TECO's storm-related cost recovery proposal that, if approved, would begin in April 2023.²⁶ Additional information related to storm restoration is provided following Table 1-1, as well as a discussion regarding the impacts of the MCC on non-residential customers.

²³Document No. 01008-2023, Schedule E2.

²⁴Order No. PSC-2023-0026-FOF-EI.

²⁵Document No. 01008-2023.

²⁶See Document No. 00379-2023 for further information regarding TECO's Interim Storm Charge request.

**Table 1-1
 Tampa Electric Company
 Monthly Residential Billing Detail for the First 1,000 kWh**

Invoice Component	Currently-Approved Charges March 2023 (\$)	Proposed Charges Beginning April 2023 (\$)	Difference (\$)	Difference (%)
Base Charge	\$86.22	\$86.22	\$0.00	0.0%
Fuel Charge	45.25	49.08	3.83	8.5%
Capacity Charge	(0.18)	(0.18)	0.00	0.0%
Conservation Charge	2.81	2.81	0.00	0.0%
Environmental Charge	0.92	0.92	0.00	0.0%
Storm Protection Plan Charge	3.73	3.73	0.00	0.0%
Clean Energy Transition Mechanism	4.30	4.30	0.00	0.0%
Storm Restoration Charge ²⁷	<u>0.00</u>	<u>10.22</u>	<u>10.22</u>	100.0%
Gross Receipts Tax	<u>3.67</u>	<u>4.03</u>	<u>0.36</u>	9.8%
Total	<u>\$146.72</u>	<u>\$161.13</u>	<u>\$14.41</u>	<u>9.8%</u>

Source: TECO MCC Petition, Schedule E-10.

The storm restoration costs are with respect to Hurricanes: Dorian, Elsa, Ian, and Nicole, and Tropical Storms: Alberto, Eta, and Nestor, as well as certain storm-related software and storm reserve replenishment costs. TECO has requested recovery of these costs in Docket No. 20230019-EI. Therefore, while the proposed residential rate adjustment is shown here, neither the Interim Storm Charge nor those associated rates are at issue in this proceeding.

TECO's currently-approved total residential charge for the first 1,000 kWh of usage for March 2023 is \$146.72.²⁸ If the Company's mid-course correction and storm cost recovery proposal are approved, the current total residential charge for the first 1,000 kWh of usage beginning in April will be \$161.13, an increase of 9.8 percent. For non-residential rate classes, TECO reported that bill increases based on average levels of usage for General Service customers would range from approximately 9.2 to 10.4 percent, and for General Service Demand customers, increases would range from approximately 6.3 to 7.0 percent.²⁹

Summary

TECO's MCC Petition indicates a need for its fuel cost recovery factors to be revised. Thus, TECO's fuel cost recovery factors should be adjusted by \$64,989,253 to incorporate a portion of

²⁷Subject to Commission approval in Docket No. 20230019-EI.

²⁸Document No. 01008-2023.

²⁹Document No. 01060-2023.

its actual 2022 end-of-year fuel cost under-recovery. The revised fuel cost recovery factors associated with staff's recommendation are shown on Appendix A.

Conclusion

Staff recommends that the Commission approve adjustments to TECO's currently-approved fuel cost recovery factors to incorporate a portion of the Company's actual 2022 under-recovery of fuel costs in the amount of \$64,989,253.

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

Recommendation: The fuel cost recovery factors, as shown on Appendix A, should become effective with the first billing cycle of April 2023. (Hampson, Brownless, Sandy)

Staff Analysis: Over the last 20 years in the Fuel Clause docket, the Commission has considered the effective date of rates and charges of revised fuel 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.³⁰

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.³¹ The Commission noted that typically 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.

In its MCC Petition, TECO proposes to collect the actual 2022 under-recovery of fuel costs over 21 months, beginning with the first billing cycle of April 2023. In the instant case, there are 27 days between the Commission's vote on March 7th and the beginning of TECO's April 2023 billing cycle (April 3rd).³²

³⁰Order 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*.

³¹Order 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*.

³²Document No. 00877-2023.

Concerning advisement of the instant request, the Company issued a press release on January 23, 2023 informing its customers of the MCC proposal. Further, TECO will begin including a notice on customer bills starting in March. The bill notice will inform TECO's customers of the proposed rate increase. The Company also plans to post similar information to its website. The Company also separately contacted numerous high-usage customers to inform them of its proposal and the potential impact on their bills.³³

Conclusion

Staff recommends that the fuel cost recovery factors, as shown on Appendix A, become effective with the first billing cycle of April 2023.

³³Document No. 00877-2023.

Issue 3: Should this docket be closed?

Recommendation: No. The 20230001-EI docket is an on-going proceeding and should remain open. (Brownless, Sandy)

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



~~EIGHTY-FIFTH-SIXTH~~ REVISED SHEET NO. 6.020
 CANCELS ~~EIGHTY-FOURTH-FIFTH~~ REVISED SHEET NO. 6.020

ADDITIONAL BILLING CHARGES

TOTAL FUEL AND PURCHASED POWER COST RECOVERY CLAUSE: The total fuel and purchased power cost recovery factor 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 following fuel recovery factors by rate schedule have been approved by the Commission:

RECOVERY PERIOD

(~~April~~ ~~January~~ 2023 through December 2023)

Rate Schedules	¢/kWh Fuel			¢/kWh Capacity	¢/kWh Environmental
	Standard	Peak	Off-Peak		
RS (up to 1,000 kWh)	4,908,626			-0.018	0.092
RS (over 1,000 kWh)	5,908,626			-0.018	0.092
RSVP-1 (P ₁)	5,2394,832			-0.018	0.092
(P ₂)	5,2394,832			-0.018	0.092
(P ₃)	5,2394,832			-0.018	0.092
(P ₄)	5,2394,832			-0.018	0.092
GS, GST	5,2394,832	5,6165,179	5,0774,683	-0.017	0.090
CS	5,2394,832			-0.017	0.090
LS-1, LS-2	5,1694,767			-0.003	0.066
GSD Optional					
Secondary	5,2394,832			-0.014	0.084
Primary	5,1874,784			-0.014	0.083
Subtransmission	5,1344,735			-0.014	0.082
Rate Schedules	¢/kWh Fuel			\$/kW Capacity	¢/kWh Environmental
	Standard	Peak	Off-Peak		
GSD, GSDT, SBD, SBDT					
Secondary	5,2394,832	5,6165,179	5,0774,683	-0.06	0.084
Primary	5,1874,784	5,5605,127	5,0264,636	-0.06	0.083
Subtransmission	5,1344,735	5,504075	4,9754,589	-0.06	0.082
GSLDPR, GSLDTPR	5,1874,784	5,560127	5,0264,636	-0.05	0.076
SBLDPR, SBLDTPR	5,1874,784	5,560127	5,0264,636	-0.05	0.076
GSLDSU, GSLDTSU	5,1344,735	5,504075	4,9754,589	-0.04	0.075
SBLDSU, SBLDTSU	5,1344,735	5,504075	4,9754,589	-0.04	0.075

Continued to Sheet No. 6.021

ISSUED BY: A. D. Collins, President

DATE EFFECTIVE: ~~January 1, 2023~~