BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.	DOCKET NO. 030001-EI ORDER NO. PSC-03-0849-PCO-EI ISSUED: July 22, 2003

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

ORDER APPROVING MID-COURSE CORRECTION TO FUEL AND PURCHASED POWER COST RECOVERY FACTORS

BY THE COMMISSION:

I. CASE BACKGROUND

By Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI, this Commission required each investor-owned electric utility to notify us 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 we may approve on our own motion, a mid-course correction to the utility's authorized fuel and purchased power cost recovery factors ("fuel factors").

On June 12, 2003, Florida Power & Light Company ("FPL") notified our staff that, based on the fuel factors approved by Order No. PSC-02-1761-FOF-EI, issued December 13, 2002, in Docket No. 020001-EI, and Order No. PSC-03-0381-PCO-EI, issued March 19, 2003, in Docket No. 030001-EI, FPL under-recovered its fuel costs by $214.1 million from February through May, 2003. On June 13, 2003, FPL filed a petition for approval of a mid-course correction to its fuel factors, to be effective from July 31, 2003, until modified by subsequent Commission order.

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

II. ANALYSIS AND FINDINGS

Basis for FPL's Request

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 approximately $247.7 million (22.2 percent) in higher fuel costs. These higher fuel costs are offset in part by approximately $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 $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.

In its petition for mid-course correction, FPL states 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 it projected for 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 duration of the oil workers' strike in Venezuela and the impact it would have on imports from that country. Also, FPL underestimated the continued sluggish response in domestic natural gas drilling activities despite high current and projected natural gas prices. In addition, natural gas and refined petroleum product inventories are less than anticipated. FPL states that these three factors (i.e., the Venezuelan oil workers' strike, sluggish drilling activity, and low inventory levels), 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, caused FPL to incur residual oil and natural gas prices that were seven percent and 13 percent higher, respectively, than projected on a unit basis.

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, we 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.

As stated previously, the cost of fuel that FPL incurred to meet its load increased during the period. Whereas FPL had estimated a 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. We estimate the incremental cost of this price variance at approximately $116.8 million. Calculating 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, we arrived at materially the same amount that FPL calculated.

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. After discussions with our staff, FPL indicated that it had misstated the primary reason for the under-recovery. FPL 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.

FPL's Mitigation Efforts

FPL states that it employs several methods to mitigate the impact of higher fuel costs. First, FPL can partially mitigate 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 pursuant to Order No. PSC-99-2512-FOF-EI, issued December 22, 1999, in Docket No. 990001-EI.

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. We note that FPL does not recover any costs through the fuel clause until the fuel is burned or consumed in its generating units, as provided by Order No. 6357, issued November 26, 1974, in Docket No. 74680-CI. 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.

FPL's Fuel Price Hedging Efforts

By Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, in Docket No. 011605-EI ("Order No. 02-1484"), we 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 our November, 2002, hearing in Docket No. 020001-EI, we authorized FPL to recover $3.3 million for 2002 and 2003 incremental operating and maintenance expenses.

FPL's petition is silent regarding the actions it has taken to hedge its fuel costs. Our 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 it continued to exercise its usual physical hedging strategies as set forth above. Based on confidential information filed in response to the data requests, we are somewhat concerned about the volume of natural gas that FPL hedged with fixed price instruments. FPL may have experienced greater savings if it had hedged a larger volume of its natural gas requirements. Such increased hedging activity could have considerably dampened the price volatility in this instance. However, we have not required utilities to hedge a minimum volume of any fuel with fixed price instruments. In Order No. 02-1484, we stated our preference to allow each utility the flexibility to create the type of risk management program that it finds most appropriate, subject to a prudence evaluation at the appropriate time. We believe a decision on the prudence of FPL's actions in this instance should be deferred until a more thorough review of the subject commences 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 by FPL rate schedule are shown on Attachment A to this Order, which is incorporated herein by reference. Under FPL's proposal, the bill for a residential ratepayer using 1,000 kWh would increase by $5.13 (6.3 percent) to $86.73.

We find that allowing recovery of the additional projected costs associated with FPL's petition beginning in August, 2003, will provide a better price signal to customers than if the recovery of these amounts were deferred until January, 2004. In other words, recovery now will provide a better match between the time costs are incurred and the time they are recovered. In addition, we find that deferring 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, we find that allowing recovery in the time frame requested by FPL will decrease the amount of interest that its ratepayers will pay on the under-recovery amount. Consistent with Order No. 9273, issued March 7, 1980, in Docket No. 74680-CI, 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-recovery balance was 1.5 percent. According to FPL, its ratepayers would avoid approximately $2.3 million in interest payments through 2004 if we authorize FPL to collect the under-recovery in 2003 instead of 2004.

Conclusion

Consistent with our findings set forth above, we grant FPL's petition for mid-course correction of its fuel factors 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.

III. EFFECTIVE DATE FOR MID-COURSE CORRECTION

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, we should authorize FPL to implement the new fuel factors as soon as possible. We note that the proposed effective date will insure that all customers are billed under the new factors for the same amount of time.

FPL informed us that on June 27, 2003, it began notifying its customers of the proposed mid-course correction through a bill insert. FPL indicated that the bill insert will state FPL's proposed total under-recovery amount, the proposed effective date of the proposed fuel factors, and the impact on a 1,000 kWh residential bill. Mailing these bill inserts prior to our vote on this matter at our July 1, 2003, Agenda Conference ensures that all customers receive a full 30-day notice of the proposed increase prior to a July 31, 2003, effective date. This provides customers the opportunity to adjust their usage in light of the new factors.

We find that FPL's proposed effective date and efforts at notifying its customers are reasonable. We therefore approve FPL's proposed effective date of July 31, 2003, its first billing cycle day for August 2003.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Power & Light Company's petition for mid-course correction to its fuel and purchased power cost recovery factors is granted. It is further

ORDERED that the fuel and purchased power cost recovery factors approved herein for Florida Power & Light Company shall become effective July 31, 2003, the utility's first billing cycle day for August 2003. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission this 22nd Day of July, 2003.

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BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural, or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida

Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

ATTACHMENT A

Florida Power & Light Company
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