

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition to recover natural gas storage project costs through fuel cost recovery clause, by Florida Power & Light Company. | DOCKET NO. 060362-EI  
ORDER NO. PSC-06-1070-FOF-EI  
ISSUED: December 28, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman  
J. TERRY DEASON  
ISILIO ARRIAGA  
MATTHEW M. CARTER II  
KATRINA J. TEW

APPEARANCES:

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R. WADE LITCHFIELD, ESQUIRE, and JOHN T. BUTLER, ESQUIRE, 700 Universe Boulevard, Juno Beach, Florida 33408  
On behalf of FLORIDA POWER & LIGHT COMPANY (FPL).

MICHAEL B. TWOMEY, SR., ESQUIRE, P. O. Box 5256, Tallahassee, Florida 32314-5256  
On behalf of AARP (AARP).

JOHN W. MCWHIRTER, JR., ESQUIRE, McWhirter, Reeves & Davidson, P.A., 40 North Tampa Street, Suite 2450, Tampa, Florida 33601-3350  
On behalf of the FLORIDA INDUSTRIAL POWER USERS GROUP (FIPUG).

ROBERT SCHEFFEL WRIGHT, ESQUIRE and JOHN T. LAVIA, III, ESQUIRE, Young van Assenderp, P.A., 225 South Adams Street, Suite 200, Tallahassee, Florida 32301  
On behalf of the FLORIDA RETAIL FEDERATION (FRF).

CHARLES J. CRIST, JR., ESQUIRE, JACK SHREVE, ESQUIRE, and CECILIA BRADLEY, ESQUIRE, Office of the Attorney General, The Capitol - PL01, Tallahassee, Florida 32399-1050  
On behalf of the Citizens of Florida (AG).

CHARLES J. BECK, ESQUIRE, PATRICIA A. CHRISTENSEN, ESQUIRE and JOSEPH A. MCGLOTHLIN, ESQUIRE, Office of Public Counsel c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400  
On behalf of the CITIZENS OF THE STATE OF FLORIDA (OPC).

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

LISA C. BENNETT, ESQUIRE, and WM. COCHRAN KEATING, IV, ESQUIRE,  
Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida  
32399-0850

On behalf of the FLORIDA PUBLIC SERVICE COMMISSION (STAFF).

FINAL ORDER ESTABLISHING METHOD FOR RECOVERY OF COSTS ASSOCIATED  
WITH STORAGE OF NATURAL GAS BY FLORIDA POWER & LIGHT COMPANY

BY THE COMMISSION:

On April 28, 2006, Florida Power & Light Company (FPL) petitioned to recover natural gas storage project costs through the fuel cost recovery clause. The gas storage project is the MoBay Gas Storage Hub (MoBay) that is to be built and operated by Falcon Gas Storage, Inc. In its petition, FPL also requested recovery of carrying costs for natural gas storage at Bay Gas. FPL's Petition was originally brought to us as a proposed agency action on August 15, 2006. At the agenda conference, we heard from FPL and several others regarding the appropriateness of the costs through the fuel cost recovery clause. We moved to continue the item to a later agenda conference with directions that if the parties could not reach agreement on cost recovery, the docket be set for a future hearing. By motion of FPL and on order of the prehearing officer in this docket, we considered FPL's petition during the November 6-8, 2006, fuel cost recovery clause hearing already scheduled for Docket No. 060001-EI. At the November hearing, we were presented with a stipulation on certain costs and approved that stipulation, which was approved by Order No. PSC-06-1053-S-EI, issued December 22, 2006. We took testimony from FPL and the Office of Public Counsel (OPC) regarding the remaining issues raised by FPL's petition: (1) whether the base gas for MoBay was recoverable through the fuel clause; (2) whether carrying costs on working gas stored at MoBay and Bay Gas were recoverable through the fuel clause; and (3) whether carrying costs for unamortized base gas stored at MoBay were recoverable through the fuel clause. After hearing testimony, we continued the hearing until December 8, 2006, in order to give the parties an opportunity to file supplemental briefs and to give our staff an opportunity to file a written recommendation.

MoBay Project

FPL entered into a Firm Storage Precedent Agreement (the "Precedent Agreement") with Falcon Gas Storage, Inc. on April 1, 2006. The gas storage facility is scheduled to go into service between December 31, 2006, and July 1, 2008. By contract, FPL will be permitted to store up to six million dekatherms of natural gas at MoBay. This corresponds to approximately five days of FPL's typical natural gas consumption. In order to take advantage of storage at MoBay, there must be base gas injected into the storage facility. FPL is required to inject three million dekatherms of natural gas, or 50% of its storage in order to make use of the MoBay facility. FPL sought to charge the costs of injecting the base gas as an immediate, one time expense, through the fuel clause. Additionally, FPL sought to charge the carrying costs associated with the inventory of stored fuel through the fuel clause.

Bay Gas

Since 2003, FPL has had a long-term storage contract with Bay Gas. FPL has recovered monthly storage charges pursuant to its use of Bay Gas, but has not recovered carrying costs for fuel stored at Bay Gas. It has petitioned to recover those costs through the fuel clause commencing in 2007.

Base Gas

Base gas is natural gas that is injected into the storage facility to provide pressure to allow the working gas to be extracted from the storage facility. FPL proposes to pay for a quantity of base gas that will be injected into MoBay's natural gas storage reservoir. This base gas will remain in the reservoir for fifteen years, until the end of the storage agreement. The base gas at the Bay Gas storage facility is not at issue because the base gas is not owned by FPL. FPL testified that the monthly storage charges by Bay Gas, of necessity, include charges for base gas which is owned by Bay Gas. Those charges do not appear separately on any invoice of Bay Gas.

None of the parties objected to the recovery of the base gas through the fuel clause. It is the timing of recovery that is at issue. FPL testified that base gas should be charged to the fuel clause in the month when it is injected into the storage facility. OPC witness Merchant testified that recovery should be amortized over the entire 15 year term of the storage agreement, thereby minimizing intergenerational inequity. In so testifying, Witness Merchant made reference to staff's prior recommendation<sup>1</sup> which is applicable to the question of whether there should be a one-time charge to the fuel clause:

Staff does not believe that this is an appropriate treatment for the cost of base gas. This treatment ignores the fact that the purpose, use, benefit and cost of base gas is applicable to the entire 15 year term of the storage agreement, not just the day that it is injected into storage. There is also the issue of possible intergenerational inequity. Today's ratepayers would be required to pay for the total cost of base gas that will benefit current and future ratepayers over the next 15 years. It is also possible that many of today's ratepayers will not be the ratepayers that benefit from the reduction in expense when FPL is compensated for the base gas at the end of the storage agreement.

FPL testified that the base gas cost, like other proposed hedging costs associated with the Mobay and Bay Gas facilities, falls within the scope of hedging costs approved for fuel clause recovery pursuant to the Proposed Resolution of Issues (the "Hedging Resolution") that we approved in Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, in Docket No. 011605-EI, In re: Review of Investor-Owned Electric Utilities Risk Management Policies and Procedures (the "Hedging Order"), and should therefore be recovered through the fuel clause. However FPL

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<sup>1</sup> This Proposed Agency Action recommendation was filed on August 3, 2006, for the August 15, 2006 Agenda Conference.

witness Dubin also likened the recovery of base gas to that of non-recoverable oil which we approved for recovery through the fuel clause in Order No. 12645, in Docket No. 830001-EI, issued November 3, 1983.

As explained by FPL witness Dubin, FPL proposes to expense the base gas through the fuel clause in the same manner that "tank bottoms" (non-recoverable oil that sits at the bottom of oil storage tanks) are expensed through the fuel clause. This non-recoverable oil is needed to keep the oil level in a tank high enough for the working volume to be removed by the suction piping in the tank. Non-recoverable oil remains in the tank until it is periodically cleaned, at which time the oil is removed and burned as fuel. Pursuant to Order No. 12645, FPL and other utilities have been authorized to charge the cost of non-recoverable oil to the fuel clause when the oil is loaded into the tanks, with a credit to the fuel clause when it is ultimately removed and burned. This is the treatment that FPL testified was similar to base gas and accordingly, the Commission should allow FPL to recover base gas as a one time charge against the fuel clause.

OPC testified that a fundamental question is whether the base gas provides a benefit over more than one accounting period and whether it should therefore be treated as a capital asset. OPC testified that the cost of base gas should be spread over the term of the agreement, which is fifteen years. OPC witness Merchant also testified that:

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...base gas correlates better with base coal than non-recoverable oil. Base coal is used to support the coal pile and is not burned. Non-recoverable oil is removed as often as the storage tank is cleaned, and represents a minimal amount of the total capacity of the storage tank. Because base gas represents 50% of the storage capacity, it contrasts with the minimal percentage of the oil under the intake pipe of a ground storage tank.

Although the intergenerational inequity cannot be totally eliminated, it can be mitigated in this instance. Rather than charging the entire cost of base gas to the fuel clause on the day that it is injected into storage, the cost could be deferred as a regulatory asset and be amortized to the fuel adjustment clause over the term of the storage agreement. This treatment of base gas is analogous to the approved treatment of base coal rather than non-recoverable oil. Base coal is capitalized and then amortized over a set period. Non-recoverable oil is expensed when the storage tank is cleaned and refilled.

Based upon the evidence in the record and the testimony adduced at the hearing, we find that base gas for the MoBay Storage facility project shall be recorded as a regulatory asset and amortized to the fuel clause over the fifteen year term of the storage agreement. We find that this is a better matching of cost and benefits and avoids some intergenerational inequities between customers if we amortize the base gas over the term of the contract. When FPL is compensated, either through exchange or sale, for the base gas at the end of the storage agreement, FPL shall credit this amount to the fuel clause.

Carrying Costs

FPL also requested that it be permitted fuel clause recovery of the carrying costs associated with natural gas stored in inventory at the MoBay and at the Bay Gas facilities. Although FPL's request did not include recovering the unamortized balance of base gas through the fuel clause, we take that issue up along with FPL's request to recover carrying costs on gas stored in inventory. FPL considers the storage of gas at the MoBay and Bay Gas facilities to be physical hedges for natural gas. Therefore, FPL asserts that all costs related to the stored natural gas inventory are hedging costs that are recoverable through the fuel clause. FPL witness Yupp testified that this treatment would be fully consistent with the Hedging Order. FPL witness Dubin testified as follows:

Stored natural gas is not fuel inventory in the conventional sense. Storing the gas serves the purpose of hedging rather than meeting ordinary operational needs of FPL's gas-fired plants. Because the purpose of storing gas is to effect a physical hedge, the gas storage carrying costs are appropriately considered hedging costs that are recoverable through the fuel clause pursuant to the hedging resolution approved by the Commission in Order Number PSC-02-1484, dated October 30<sup>th</sup>, 2002. Said another way, FPL's proposal to recover the gas storage carrying costs associated with the MoBay and Bay Gas storage projects through the fuel clause is fully appropriate and consistent with the hedging resolution

Recovery of the stored gas carrying costs through the fuel clause is also fully consistent with the 2005 rate case stipulation<sup>2</sup> and subsequent stipulation in the 2005 fuel docket<sup>3</sup> that states, I quote, FPL's continued recovery of incremental hedging costs through the fuel and purchased power cost recovery clause during the term of the rate stipulation is reasonable and consistent with the intention of the parties to the rate stipulate, end quote.

In addition, OPC witness Merchant defined O & M expenses as the types of costs that are incurred on an annual basis to operate the company, citing salaries and chemicals as examples. OPC witness Merchant also defined carrying costs as being related to the rate of return component that the Commission allows the utility to earn on its investment. The carrying cost includes debt, the recovery of interest cost, the rate of return on equity the inclusion of customer deposits, and deferred income taxes. Together, these items develop the overall rate of return that a utility is allowed to earn.

OPC's witness Merchant testified that carrying costs on fuel inventory are typically and historically base rate items and inappropriate to include in the fuel clause. These costs also do not result in any fuel savings, nor are they volatile or related to inventory adjustments, as

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<sup>2</sup> Although not cited in the testimony, FPL witness is referring to Order No. PSC-05-0902-S-EI, issued September 14, 2004, in Docket No. 050045-EI, In re: Petition for rate increase by Florida Power & Light.

<sup>3</sup> Although not cited in the testimony, FPL witness is referring to Order No. PSC-05-1252-FOF-EI, issued December 23, 2005 in Docket No. 050001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

required by Order No. 14546, issued July 8, 1985, in Docket No. 850001-EI-B, In re: Cost recovery methods for fuel related expenses. Further, the physical hedging costs allowed by the Hedging Order were hedging transaction costs or incremental operating and maintenance expenses and the Hedging Order did not provide for rate of return components on fuel inventory to be recovered through the fuel docket as hedging costs. Finally, OPC witness Merchant testified that it was her opinion that requesting recovery of costs which would typically and historically be recovered in base rates would violate the 2005 Rate Case Settlement approved by the Commission. Accordingly, OPC witness Merchant recommended that the carrying costs on gas inventory are recoverable as base rates, not through the fuel clause.

Through testimony and evidence adduced through the fuel clause proceeding and this docket, we have learned that other Gulf Power Company and Tampa Electric Company have treated carrying costs associated with stored natural gas as a base rate item, not recoverable through the fuel clause. Moreover, FPL has had carrying costs associated with storage in its Bay Gas facility since 2003.

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Upon consideration, we agree with OPC that fuel inventory, whether it is coal, oil or gas, is a normal component of working capital that is included in rate base for ratemaking purposes. As a result, the associated inventory carrying costs are included in, and recovered through, base rates. In concluding that carrying costs are base rate items, we have considered and reject FPL's argument that storage of natural gas is a physical hedge as we used that term in Order No. PSC-02-1484-EI, the Hedging Order. We do find this project to be prudent and encourage utilities to pursue natural gas storage. FPL's petition for fuel clause recovery of carrying costs on inventory of natural gas stored at Bay Gas and MoBay is denied. FPL will not be permitted to recover carrying costs on the unamortized balance of base gas at MoBay through the fuel clause.

Based on the foregoing, it is

ORDERED that base gas injected by Florida Power & Light Company at the MoBay Gas Storage Hub be treated as a regulatory asset and amortized over the fifteen year period of Florida Power & Light Company's storage agreement. Recovery of this regulatory asset will be through the fuel clause. It is further

ORDERED that at the conclusion of the storage agreement at the MoBay Gas Storage Hub, when Florida Power & Light Company is compensated, either through exchange or sale, for the base gas, Florida Power & Light Company shall credit this amount to the fuel clause. It is further

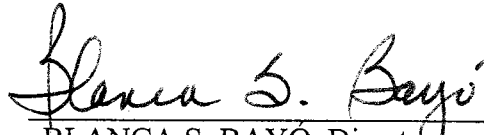
ORDERED that natural gas stored at MoBay Gas Storage Hub and Bay Gas storage facility is considered inventory and shall be recovered through the fuel clause in the same manner as all other fuel inventory. It is further

ORDERED that carrying costs associated with the natural gas inventory at MoBay Gas Storage Hub and Bay Gas storage facility, and with the unamortized balance of base gas stored at

MoBay Gas Storage Hub are base rate items and not recoverable through the fuel clause. It is further

ORDERED that Docket No. 060362-EI shall be closed.

By ORDER of the Florida Public Service Commission this 28th day of December, 2006.



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

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( S E A L )

LCB

DISSENT:

Commissioners Deason and Arriaga dissent without opinion on the issue of recovery of carrying costs.

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.

Any party adversely affected by the Commission's final action in this matter may request:

- 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, 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 and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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