

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor. | DOCKET NO. 080001-EI
ORDER NO. PSC-08-0494-PCO-EI
ISSUED: August 5, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

ORDER GRANTING A MID-COURSE CORRECTION TO
FLORIDA POWER & LIGHT COMPANY

BY THE COMMISSION:

Background

On June 3, 2008, Florida Power & Light Company (FPL or utility) filed a petition for a mid-course correction to its fuel adjustment factors. We had previously approved the fuel cost recovery factors for FPL by Order No. PSC-08-0030-FOF-EI, issued January 8, 2008, in Docket No. 070001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

FPL requests the mid-course correction following the procedure established by Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI and Docket No. 840003-GU, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor; In re: Purchased gas cost recovery clause, and Order No. PSC-98-0691-FOF-PU, issued May 19, 1998, in Docket No. 980269-PU, In re: Consideration of change in frequency and timing of hearing for the fuel and purchased power cost recovery clause, capacity cost recovery clause, generating performance incentive factor, energy conservation cost recovery clause, purchased gas adjustment (PGA) true-up, and environmental cost recovery clause, and Order No. PSC-07-00333-PAA-EI, issued April 16, 2007, in Docket No. 070001-EI.

Mid-course corrections are part of the fuel proceeding. They are considered preliminary procedural decisions. We take testimony regarding those costs in our November hearing. Any over or under-recoveries caused by or resulting from the new factor adopted by the mid-course correction may be included in the following year's fuel factor. Our jurisdiction to consider fuel clause proceedings derives from our authority to set fair and reasonable rates, Section 366.05, Florida Statutes.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

Motion to Dismiss or Abate the Proceeding

On June 9, 2008, Florida Industrial Power Users Group (FIPUG) filed a Motion to Dismiss FPL's mid-course correction petition, or in the alternative a Motion to Abate the mid-course correction until we could hold a hearing on the petition. In its written motion, FIPUG asserts that FPL's Petition for Mid-course Correction should be dismissed because the petition did not meet the criteria for granting a mid-course correction. Alternatively, FIPUG asks that we abate our decision on mid-course corrections until FPL files sworn testimony. FIPUG asks that the matter be set for public hearing and that customers be permitted to cross examine utility witnesses under oath. FIPUG asserts that this would afford the public with minimum due process and allow them to receive a fair understanding of the rate increase. On June 16, 2008, FPL filed a Response in opposition to FIPUG's Motion to Dismiss Mid-Course Correction. At the July 1, 2008, Agenda Conference FIPUG stated it would not seek oral argument on its Motion to Dismiss, and asserted that it would present its objections to the petition during the substantive portion of the discussion regarding FPL's petition for mid-course correction.

In its written motion, FIPUG states that FPL filed a petition for mid-course correction seeking \$746 million. FIPUG contends that our Order No. PSC-07-0333-PAA-EI, issued April 16, 2007, which requires utilities to include prior year under or over-recoveries in mid-course correction calculations, when combined with a national policy allowing the value of the dollar to fall, and with the highly volatile commodity futures trading market, has brought potential hardship to Florida consumers. FIPUG argues Order No. PSC-07-0333-PAA-EI caused unintended harm to ratepayers because it brings prior year true-ups into play, and requires a utility to reproject revenues and expenses for the remainder of the year rather than looking only to the actual losses a utility experiences year to date.

FIPUG argues that customers are entitled to a hearing to present testimony about the impact of the unanticipated increase on their operations. In its motion, FIPUG also questions whether FPL delayed reporting fuel cost increases until after proposed legislatively-mandated rate increases were in place. FIPUG, in asking why fuel cost increases were not reported earlier than May 30, wonders if it could be because of FPL's legislative activity. FIPUG asserts that this delay in reporting under-recovery requires a dismissal of the petition.

FPL requests that we deny FIPUG's motion. FPL asserts that its petition complies with the mid-course correction orders, Order Nos. 13694 and PSC-07-0333-PAA-EI. FPL states that Order No. PSC-07-0333-PAA-EI requires a utility to notify us when the total projected under-recovery exceeds 10% of the utility's current projection of the Jurisdictional Fuel Revenue Applicable-to-Period (Schedule A-2, Line C-3). According to FPL, its mid-course correction petition includes a \$121,036,106 under-recovery of 2007 fuel costs and a \$625,117,310 under-recovery of 2008 fuel costs that FPL projects based on current information. FPL states that its total projected under-recovery for 2008 is more than 10% (slightly more than 12%) of the current projection of 2008 Jurisdictional Fuel Revenue Applicable-to-Period. FPL asserts that its 2008 under-recovery of \$746,153,416 is calculated in accordance with our Order No. PSC-07-0333-PAA-EI. FPL argues that because its calculations indicate it will exceed the 10% threshold, it must notify us and its petition for mid-course correction satisfies FPL's reporting responsibility.

FPL notes that FIPUG's motion alleges no deviation from the computational requirements of our order. FPL argues that because it has correctly calculated its projections according to Order No. PSC-07-0333-PAA-EI and filed the petition, the motion by FIPUG alleges no deficiency of the petition for mid-course correction that warrants dismissal. FPL concludes that because FIPUG's motion does not allege any violation of our orders on mid-course corrections, FIPUG's motion to dismiss should be denied.

FPL next addresses FIPUG's alternate request to abate until a hearing is conducted on the proposed mid-course correction. According to FPL, we have not traditionally held hearings prior to ruling on mid-course corrections. FPL asserts that to do so in this instance would be unnecessary and inappropriate. FPL states that a hearing is unnecessary because, as is the case in all fuel proceedings, the revenues collected pursuant to the mid-course correction are subject to review and true-up at the subsequent fuel clause hearing. FPL further asserts that FIPUG's concern that it be permitted to present its views on the mid-course correction can be addressed at the Agenda Conference on July 1, 2008, if we permit parties to participate. FPL's final argument on this point is that a hearing would be inappropriate because it would work against one of the fundamental purposes of a mid-course correction, which is to adjust fuel cost recovery factors promptly to reflect major changes in projected fuel costs. FPL concludes that holding a hearing would delay implementation of the mid-course correction which likely would result in a substantial reduction in the number of months remaining in 2008 over which collection would be spread.

We find FPL's interpretation of Order No. PSC-07-0333-PAA-EI to be correct and accordingly deny FIPUG's Motion to Dismiss. FPL has calculated its under-recovery as directed by Order No. PSC-07-0333-PAA-EI. FPL included the actual under-recovery it had experienced in 2007 that was not included in this year's fuel factor. FPL also reprojected its revenues and expenses, as directed by that same order. Our review and analysis of the need for a mid-course correction are discussed more specifically below.

The 2007 order clarifying the appropriate mechanism to calculate over and under-recoveries is not new to us, as FIPUG appears to suggest. In 2003, we had before us several mid-course petitions from FPL, Progress Energy Florida (PEF), and Tampa Electric Company (TECO) that were very similar factually. In Order No. PSC-03-0400-PCO-EI, TECO reprojected its fuel costs using updated assumptions to develop future cost and revenue estimates. We allowed the mid-course correction and stated that "[d]uring the scheduled November 12-14, 2003, hearing in this docket, we will compare these estimates to actual data, then apply the difference to next year's fuel factors through the true-up process. Any over-recovery that Tampa Electric may collect through its approved fuel factors will be refunded to Tampa Electric's ratepayers with interest." And in Order No. PSC-03-0382-PCO-EI, we were presented with PEF's reprojected revenues and expenses, as well as a prior year's under-recovery. We acknowledged that historical year under-recoveries could be included as part of the mid-course correction, and found good reason to do so in the 2003 mid-course correction request. In approving PEF's request to include part of the historical year under-recovery, we stated:

First unlike PEF's projected 2003 under-recovery amount, PEF's 2002 under-recovery represents the difference between actual costs incurred and revenues

received. Although unaudited, these actual fuel revenues and costs from 2002 have a higher degree of certainty than the projected fuel revenues and costs for 2003. We note that our staff has commenced an audit of PEF's 2002 fuel revenues and costs in the normal course of this docket, and that any audit findings which compel an adjustment to these amounts may be addressed at our November 12-14, 2003, hearing scheduled for this docket. Second, recovery of \$28.5 million of the total under-recovery commencing in April 2003, instead of January 2004, would be consistent with the basic principle of ratemaking which seeks to match the timing of the incurrence of costs with the timing of their recovery.

Order No. PSC-03-0382-PCO-EI at p. 4. Likewise, in Order No. PSC-03-0381-PCO-EI, we approved FPL's mid-course correction, which included historical year (2002) under-recovery amounts and reprojected current year (2003) revenues and expenses.

Having determined that FPL's motion to dismiss be denied, we turn to FIPUG's alternate request for abatement. The purpose of Order No. 13694, which requires notification of mid-course corrections, is to protect the ratepayers. Because the utility will recover its reasonably incurred fuel costs (including any under-recoveries) through the fuel clause either by a mid-course correction or by an increase in next year's fuel factor, the mid-course correction is not for the benefit of the utility. The body of prior orders granting mid-course corrections supports this view. In previous orders, we have granted mid-course corrections: (1) because the ratepayers would pay a substantial amount of interest if the under-recovery was deferred to the following year (Order No. 23906); (2) to prevent consumer 'rate shock,' which may be caused by volatile fuel prices (Order No. 21325); (3) to match fuel revenues with fuel costs (Order No. PSC-02-0501-AS-EI); and (4) to provide a better price signal to customers (Order Nos. PSC-03-0849-PCO-EI, PSC-03-0400-PCO-EI, PSC-03-0382-PCO-EI, and PSC-03-0381-PCO-EI).

With the purpose of mid-course corrections being ratepayer protection, FIPUG's concerns as set forth in its motion can be adequately addressed in the normal course of the fuel docket without dismissing or abating our opportunity to reach a decision on FPL's mid-course correction petition. First, during the mid-course correction, we make our preliminary review of FPL's mid-course correction petition by testing the reasonableness and accuracy of actual and revised data supporting FPL's position (Order No. PSC-01-1665-PAA-EI at p. 5). Second, parties and affected persons have been permitted to address us regarding their concerns at our July 1, 2008, Agenda Conference. Third, there is a full procedural hearing in November to consider FPL's actual costs and revenues, for which the parties are afforded opportunity for discovery, to present witnesses, and to cross-examine utility witnesses. Finally, if a utility over-recovers for the year, the customers will receive a refund with interest for that over-recovery through a relative reduction in the 2009 fuel factor.

In making the decision to abate or not, we weigh the timing of a hearing on a mid-course petition with the need to protect ratepayers. We find that ratepayers would be better served by our evaluation of the mid-course correction petition now and our consideration of the substantive merits of witness testimony at the November fuel hearing. A hearing on the mid-course correction prior to the mid-course correction going into effect would delay and perhaps prohibit the mid-course correction from occurring. It is better that we evaluate the information we have before us and determine what is in the best interest of ratepayers at the July 1, 2008,

Agenda Conference, than to defer a decision until later in the year. This is uniquely true in the fuel clause docket because of the layers of procedural due process afforded to ratepayers. Accordingly, we deny FIPUG's Motion to Dismiss or Alternately to Abate the proceedings. FPL has complied with Order No. PSC-07-0333-PAA-EI in calculating its under-recovery. Procedural due process is built into the fuel clause proceedings so that ratepayers' interests remain protected.

FPL's Petition for Mid-course Correction

Based on FPL's actual (January through April) and re-projected (May through December) revenue and expense data for 2008, FPL expects that its fuel and purchased power costs will be under-recovered by \$746,153,416 by the end of 2008. This under-recovery amount is FPL's estimated December 2008 End-of-Period Total Net True-up. FPL has based its petition on that estimate's percent of its 2008 estimated Jurisdictional Fuel Revenue Applicable to Period, \$5,784,839,213. The under-recovery percent is 12.90%. The estimated under-recovery is comprised of the difference between the estimated and actual December 2007 End-of-Period Total Net True-up, (\$121,036,106), the estimated 2008 interest on 2007's difference and 2008's monthly balances, (\$11,804,759), and the difference between 2008's estimated revenues and estimated expenses, (\$613,312,550). Table 1 below presents the calculation of the under-recovery percentage.

TABLE 1 – CALCULATION OF UNDER-RECOVERY PERCENT	
<u>Component</u>	<u>Dollars</u>
2007 True-up	-\$121,036,106
2008 Projected Under-recovery	-\$613,312,551
2008 Interest	-\$11,804,759
Estimated 12/08 End of Period Total Net True Up	-\$746,153,416
Jurisdictional Fuel Revenue Applicable to 2008	\$5,784,839,213
2008 Mid-Course Percent	12.90%
Source: Schedule E1-B, Mid-Course Petition	

FPL's actual April 2008 End-of-Period Total Net True-up was an under-recovery of \$184,636,651. The July 2008 estimate is an under-recovery of \$486,098,018, and the December 2008 estimate is an under-recovery of \$746,153,416 (July's estimated under-recovery is the amount to be collected between the beginning of August and the end of December). Based on current estimates, the under-recovery percent will increase from 3.19% to 8.40% from April to July, and increase from 8.40% to 12.90% from July to December.

According to FPL, the reason for the projected 2008 under-recovery is that fuel prices have increased to a higher level than the estimated prices upon which its current fuel factors are based. FPL originally estimated its 2008 fuel costs as of July 24, 2007, and it bases its mid-course request on fuel price forecasts as of May 21, 2008. The oil and gas markets are volatile and futures prices change from day to day. Further, we note PEF filed its mid-course petition only a few days before FPL's filing. However, PEF used a forward curve as of April 21, 2008, when natural gas prices were lower.

FPL states that fuel prices have increased due to the following factors:

- Natural gas prices have increased due to: a projected tightening of supply for filling storage requirements by the end of October 2008; declining Canadian production; and domestic gas prices being lower than prices in Europe and Asia, which divert LNG cargoes from the U.S and reduce domestic supply. Power generation demands in Europe and Asia have driven a surge in demand for LNG. Domestic production has not grown fast enough to match demand.
- Crude oil prices have increased due to weak non-OPEC supply, robust growth in demand in Asia and developing countries, and geopolitical risks. Higher crude oil prices directly affect the price of heavy fuel oil and diesel fuel.
- While delivered coal prices have increased, in part due to higher diesel fuel prices that increase transportation costs, FPL is not as affected by these increases as other Florida investor-owned utilities (IOUs) since its fuel mix is weighted toward gas, nuclear, and oil.

FPL states that it has endeavored to reduce 2008 fuel costs and fuel price volatility. According to FPL, for 2008 the utility has hedged portions of its oil and gas purchases. FPL asserts that this hedging has generated, on an actual and marked to market basis, significant amounts of gains for 2008. FPL concludes that these gains, which are netted against fuel costs, reduce but do not eliminate the impact of higher fuel prices.

For 2008, FPL states that its actual and estimated (marked to market) hedging gains for gas and oil are \$729,832,184 and \$312,591,058, respectively, as of June 11, 2008. Regarding these results, FPL notes the following: (1) these results are as of a single point in time; (2) given volatile markets, the results can vary from day to day; and (3) the goal of its hedging program is volatility control, such that hedging can result in gains or losses within any given calendar period. While we agree with these points, we note that we will review in a more comprehensive way the actions taken by FPL to mitigate fuel costs and price volatility as part of the November fuel clause proceeding.

We permitted several individuals and representatives to address us during our July 1, 2008 Agenda Conference. Each of the speakers urged us to consider alternatives to granting FPL's request to recover its mid-course correction in the remainder of 2008. Most expressed concerns regarding the rate shock that consumers would feel in 2008. The representatives of consumer groups and of the Miami-Dade school board indicated that delaying all or a portion of the recovery would allow consumers to adjust their budgets more effectively. The attorney representing the Florida Association of District School Superintendents stated that the overall economic conditions are affecting the schools to the point they are eliminating programs, closing schools and reducing jobs. The Florida Retail Federation (FRF) stated that the timing of the recovery of fuel costs is at issue for its members. According to FRF, postponing the implementation of all or a portion of the costs will give its members time to adjust their budgets.

FIPUG also argued that postponing the implementation would give its members adequate notice and an ability to adjust their budgets. Ms. Larson, an FPL customer, also stated that residential customers affected by economic conditions, will struggle with this increase.

In its written motion and during its oral presentation, FIPUG posed several questions it wishes us to consider. FIPUG questioned why hedging did not protect customers from rate increases. In asking why hedging did not protect customers, FIPUG asserted that FPL bought hedges in 2007, presumably at lower prices. According to FIPUG, if FPL was locking in the lower 2007 prices, and if electrical sales fall off, FPL should have a double reward, with its ability to sell off derivatives of unneeded fuel at a premium and pass through the benefits to the consumers. FIPUG explained that it is concerned that if hedging and annual fuel factors are supposed to provide rate stability, these fuel cost increases move the policy away from stability.

FIPUG also questioned whether the rate increase was designed to conceal the full impact of the nuclear plant increases scheduled to begin in January 2009. FIPUG questioned the credibility of FPL's estimates of future lost sales. FIPUG provided the May Natural Gas Price Outlook published by EIA to show that prices in 2009 will moderate. Finally, FIPUG questioned whether some of the anticipated lost revenue forecast is based on weather related events and asked that FPL be required to present testimony.

FIPUG asserted that consumers should be given a chance to present evidence to show any adverse impact of imposing a rate increase after their budgets for the year are in place. FIPUG claimed that in the past, utilities have supported an extended payback for under-recoveries rather than a five month payback. FIPUG stated that it would like to have the opportunity to recommend to us a reasonable payback period if the fuel cost shortfall actually occurs. FIPUG further asserted that we have only required the shorter payback period when future year increases are also anticipated. FIPUG stated that FPL provided no evidence to indicate an extended payback is not warranted. FIPUG contended that our objective of rate stability is violated if large increases are not spread over several years. According to FIPUG, this is exacerbated by including carryovers from prior years.

In its petition, FPL requested recovery of all of its under-recovery during the remaining months of 2008. FIPUG, FRF and the consumer groups requested that we allow recovery over an extended period of time. At our Agenda Conference, FPL stated that it agreed that recovery of 50% of its under-recovery in 2008 and 50% in 2009 was acceptable. FPL did assert that it has continuing concerns that the 2009 rate impact on consumers would be significant. FPL stated that it has no reason to expect that customers' total bills will be lower in 2009 than for the remainder of 2008 with the mid-course correction included in the factor. FPL provided an exhibit which it asserts demonstrates that natural gas and residual fuel oil delivered in 2009 are as high as or higher than the prices for those same fuels delivered in 2008. FPL cautioned that deferring a portion of the mid-course correction for recovery in 2009 could contribute to another step-increase in customers' total bills at the beginning of 2009.

We have reviewed the key assumptions regarding changes in fuel prices, system efficiency, system generation, and fuel mix. We have also listened to and taken into consideration the comments of consumers and their representatives. The data used for

comparison purposes is the original projection data contained in the September 4, 2007, testimony of FPL witness Kory Dubin in Docket No. 070001-EI, and in the mid-course projection data filed by FPL with its petition on May 30, 2008. FPL used this data to support its re-projected fuel costs and revenue estimates. The comparative data appear in Tables 2-5. FPL used these data to support its reprojected fuel costs and revenue estimates.

TABLE 2 - CHANGE IN FPL'S 2008 DELIVERED FUEL PRICE FORECAST (\$/MMBTU)			
	As filed (9/4/07)	As filed (6/3/08)	Change
Natural Gas	9.52	10.78	1.26
Residual Oil	9.44	9.49	0.05
Distillate Oil	15.97	15.12	0.85
Coal	2.30	2.34	0.04
Nuclear	0.42	0.43	0.01
Source: Schedule E3			

TABLE 3 - CHANGE IN FPL'S 2008 SYSTEM EFFICIENCY (BTU/KWH)		
	As filed (9/4/07)	As filed (6/3/08)
Natural Gas	7,625	7,702
Residual Oil	9,903	10,139
Distillate Oil	12,588	12,486
Coal	10,021	10,141
Nuclear	11,151	11,012
Weighted Average	8,765	8,805
Source: Schedule E3		

TABLE 4 - CHANGE IN FPL'S 2008 SYSTEM NET GENERATION (MWH) BY FUEL TYPE			
	As filed (9/4/07)	As filed (6/3/08)	Percent Change
Natural Gas	65,135,881	62,691,286	-3.75
Residual Oil	7,213,816	4,907,330	-31.97
Distillate Oil	388	8,355	2,053.35
Coal	6,903,293	6,733,834	-2.45
Nuclear	24,050,491	23,905,481	-0.60
Total	103,303,869	98,246,285	-4.90
Source: Schedule E3			

As can be seen from Table 2, FPL's delivered fuel prices are projected to increase compared to the original projections. Per the mid-course correction filing, 2008 natural gas prices are projected to be \$10.78/MMBtu, an increase of \$1.26/MMBtu over the September 2007 projection filing of 2008 natural gas prices. The mid-course filing's price estimate for natural gas includes the impact of hedging gains identified above, as well as transportation costs and basis.

As indicated in Table 3, FPL shows a slight decrease in system efficiency compared to original projections as measured by btu/kWh. Weighted average system efficiency declined from 8,765 btu/kWh to 8,805 btu/kWh. The percent decrease is 0.5%.

As indicated in Table 4, system generation is projected to decrease per FPL's mid-course correction filing (4.90 percent). The mid-course projection for system generation, measured in megawatt hours, shows a significant decrease in residual oil generation (32.00 percent). Meanwhile, FPL projects to generate only slightly less electricity from natural gas (3.75%) as it becomes the more cost-effective option compared to oil. This is consistent with FPL's fuel price forecast showing that residual oil prices are expected to increase by a greater amount than natural gas prices.

We identified the sources of the 2008 under-recovery by fuel type, power sales, purchased power, and all other factors, based on kilowatt hour sales. This breakdown is presented below in Table 5.

1	Coal	\$(1,797,316)
2	Residual oil	168,005,034
3	Light Oil	(1,504,345)
4	Natural Gas	(720,081,339)
5	Nuclear	(5,659,592)
6	Non-fuel Generation	(735,979)
7	Power Sold & FKEC/CKW	(13,645,557)
8	Purchased Power	(9,992,889)
9	Qualifying Facilities	(10,519,818)
10	Economy Energy	385,326
11	System kWh Sales (Sum of 1-10)	(595,546,488)
12	Wholesale kWh Sales	(31,749)
13	Jurisdictional kWh Sales (Sum of 11-12)	(595,514,742)
14	Revenue Adjustment Due to Rate Class Usage Variations	(13,296,236)
15	Unrefunded True-up and GPIF for 2008	(4,501,628)
16	Line-Loss Correction	0
17	Total June 2008 Projected Under-recovery (Sum of 13 - 14)	(613,312,551)

Source -- Schedules E1, E1-B, E3, E6,E7, E8, E9 from 9/4/07 , 6/3/08 Mid Course filings, and June 6 Data Request Responses.

Table 5 shows the impact of higher natural gas and oil prices in 2008, resulting in additional costs relative to revenues produced by current factors of \$613,312,551 compared to the original estimate. Significantly, lower residual oil volumes in 2008 are projected to result in

an over-recovery of \$168,005,034 despite the slight increased price of residual oil compared to original projections. As discussed, FPL has replaced much of its oil-fired generation with lower cost and more efficient gas-fired generation.

As shown on Table 5, FPL projects an under-recovery in purchased power by contract and power purchased from qualifying facilities. FPL's purchased power is based on gas and coal and is therefore affected by higher gas and coal prices. Overall, it appears that the primary cause for FPL's projected under-recovery is that natural gas and fuel oil prices are higher than originally projected.

Consistent with our review of previous mid-course corrections, our analysis of FPL's petition includes an examination of whether the assumptions (i.e. fuel prices, retail energy sales, generation mix, and system efficiency) that FPL used to support its re-projected fuel costs appear reasonable. FPL used these updated assumptions to develop future cost and revenue estimates. During the scheduled November 6-8, 2008, hearing in this docket, we will compare these estimates to actual data, then apply the difference to next year's fuel factors through the true-up process. Any over-recovery that FPL may collect through its approved fuel factors will be refunded to FPL's ratepayers with interest. We will address whether FPL's actions to procure fuels cost-effectively were appropriate, including its actions to hedge fuel prices, at our November 6-8, 2008, evidentiary hearing.

While the utility is permitted to recover its fuel costs, we retain the discretion to evaluate the rate impact of a mid-course correction upon customers and set rates appropriately. With mid-course corrections in the past, we have considered the stability of fuel factors within the year and between years (e.g., Order No. PSC-03-0382-PCO-EI, Page 9). We have noted that stable annual fuel factors are important for customers because stable factors give customers more certainty in planning their expenditures for electricity. However, several issues are in tension with the concept of rate stability.¹

If fuel costs vary significantly from original projections, then fuel factors will be less representative of costs and customers will not receive accurate price signals regarding the cost of electricity. In the case of actual and projected fuel costs being higher than original projections, an under-recovery will result and, if not corrected, will affect the calculation of subsequent year fuel factors. In times of rising fuel prices, such an under-recovery can compound the rate impact because the subsequent year's fuel factors would reflect both the higher fuel prices and the prior year's under-recovery. In addition, interest would accrue on the under-recovery. Another aspect of deferred under-recoveries is the concept of intergenerational inequity. If a cost is deferred, even a year or portion of a year, a slightly different set of customers will be charged for collection of the costs incurred.

Consideration of a mid-course change to fuel factors involves balancing the goals of achieving a stable annual fuel factor with the goal of sending accurate price signals to customers. Consistent with past orders, it is appropriate that we consider the rate effects and bill impacts for not only the remaining months of the current year but also for the next calendar year.

¹ For a discussion of rate stability, see Order No. PSC-98-0691-FOF-PU, page 4. For a discussion of the impacts of deferrals and mid-course corrections, see Order No. PSC-03-0382-PCO-EI, pages 8 and 9.

Table 6 shows the recent trend in FPL's fuel factors and 1,000 kWh residential bills.

	2004	2005	2006	Jan-Apr 2007	May-Dec 2007	2008 Current	2008 FPL Proposed
Levelized Fuel Cost Recovery Factor, ¢/kWh	3.742	4.001	6.178	5.763	5.553	5.553	7.137
Residential 1,000 kWh Bill, \$	86.43	89.92	108.61	103.51	103.51	102.63	118.91

Source: Orders approving factors issued in December/January for 2004-2008, Mid Course Petition Schedule E-10

As Table 6 indicates, FPL's fuel factors and residential class 1,000 kWh bill increased during 2004 through 2006, and then declined from 2006 to 2008.

To allow consideration of all the above points regarding rate impact, we requested FPL to provide estimated bill impacts and associated rates/factors for four possible mid-course correction recovery options. The four options include:

- Option A. Approve the requested mid-course correction as filed allowing FPL to collect the entire under-recovery during the remaining 5 months of 2008;
- Option B. Deny the requested mid-course correction and allow any under-recovery to be collected in 2009 fuel factors;
- Option C. Collect 50% of the identified under-recovery during August through December of 2008 and defer the remaining 50% to 2009; or
- Option D. Collect the under-recovery over 17 months (from August 2008 through December 2009).

The four options we have considered offer a reasonable range of alternatives from which to consider possible rate adjustments and bill impacts. FPL's response to our request to show bill impacts is included in this Order as Attachment A. It is apparent that both the 2009 fuel factor increases and 2009 bill impacts under Options B, C, and D are high relative to Option A. Option C (50% in 2008) suggests step increases in bills in August 2008, January 2009, and June 2009. Option C's appeal is that it would allow customers from all rate classes a smaller increase in the short term, thus avoiding some degree of rate shock, while also allowing them the opportunity to adjust their respective budgets for the eventual increases in 2009. We are aware that the drawback of Option C, similar to Options B and D, is that it may ultimately result in higher fuel factors and higher bills in 2009 than Option A. We find, however, that because of the unique economic conditions facing Florida, Option C is in the best interest of ratepayers and the utility alike. The utility will still be permitted to recover its fuel costs and consumers will have additional time to adjust their budgets for the increased rates.

Conclusion

We find that FPL's basis for requesting the proposed mid-course correction is consistent with Order No. PSC-07-0333-FOF-EI. We have tested the reasonableness and accuracy of the

information provided by FPL. Actual and projected coal, oil, and natural gas cost increases indicate that FPL's current estimated under-recovery is reasonable. Our staff will continue to conduct discovery on the actual and estimated expenditures of FPL and we will conduct a thorough review of costs in our November 2008 fuel hearing.

We also considered the comments of FPL, its customers and customer representatives when deliberating on the appropriate timing of the collection of the under-recovery. Upon review of the projected rate changes and bill impacts under the four different options presented to us, we approve Option C, collecting 50% of the identified under-recovery during August through December of 2008, and deferring the remaining 50% to 2009. By permitting FPL to collect 50% of its projected under-recovery in 2008 and 50% in 2009, we will provide ratepayers with the least degree of immediate rate shock. While we are aware that by permitting recovery of only half of the under-recovered amount in 2008 may result in a higher 2009 bill for FPL's customers than if we allowed FPL to collect all of its under-recovery in 2008, we find that the timing of a stepped increase will give customers a better opportunity to adjust their budgets for the eventual increases in 2009. FPL shall file its tariff sheets with the new recovery factors with the Commission within thirty days of the date of this order.

Effective Date of New Rates

FPL has requested an effective date of August 4, 2008, cycle day 3 of August 2008. In other words, customers whose meters are read on or after August 4, 2008 will be billed under the new recovery factors. An effective date of August 4, 2008, will ensure that all customers are billed under the new factors the same amount of time since FPL always applies revised fuel factors on cycle day 3 of any given month.

Starting July 3, 2008, FPL will notify its customers of its proposed mid-course correction through a bill insert. The July 3 mailing date ensures that customers receive a 30-day notice that the fuel factors may change. The bill insert states FPL's proposed total under-recovery amount, the effective date of the proposed cost recovery factors, and the impact on a 1,000 kWh residential bill. Because of the time needed by FPL for printing, FPL could not wait for our vote at the July 1 Agenda Conference to print the bill inserts. Accordingly, FPL will include the details of our actual decision in customers' August bills.

Providing customers with a 30-day notice prior to implementing new fuel factors as a result of a midcourse correction is consistent with our past decisions, and allows customers the opportunity to adjust their usage in light of the proposed factors.² We find that FPL's proposed effective date and plan to notify its customers are appropriate.

Based on the foregoing, it is

² See Order No. PSC-07-0739-PCO-EI, issued September 17, 2007, in Docket No. 070001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

ORDERED by the Florida Public Service Commission that Florida Industrial Power Users Group's Motion to Dismiss or Alternately to Abate the Mid-course Correction Petition is denied. It is further

ORDERED that Florida Power & Light Company shall be permitted to collect fifty percent of its projected under-recovery in 2008. Any remaining 2008 balance will be considered for 2009 recovery in the November 2008 fuel hearing. The recovery will be subject to our review and true-up in the fuel proceedings. It is further

ORDERED that Florida Power & Light Company shall provide revised tariff sheets reflecting our Order within thirty days of the date of this Order.

ORDERED that Florida Power & Light Company shall notify its customers as more specifically directed in the body of this Order. It is further

ORDERED that this docket is a continuing docket and shall remain open.

By ORDER of the Florida Public Service Commission this 5th day of August, 2008.



ANN COLE
Commission Clerk

(SEAL)

LCB

DISSENT BY: COMMISSIONERS ARGENZIANO AND MCMURRIAN

With the following opinion, COMMISSIONER KATRINA J. MCMURRIAN dissents from the majority's decision to deny staff's recommendation to approve FPL's petition for a mid-course correction to its 2008 fuel and purchased power cost recovery factors and to instead instruct FPL to collect half of the identified under-recovery during August through December of 2008 and defer collection of the remainder to 2009 (Issue 2).

I must respectfully dissent from the majority's denial of the staff recommendation to approve FPL's petition for mid-course correction to its 2008 fuel factors, also identified in the staff recommendation as Option A. As explained in the body of this Order, the majority voted to

approve Option C, instructing FPL to instead collect half of the identified under-recovery during August through December of 2008 and defer collection of the remainder to 2009. My concern is that deferral of a significant portion of such an enormous under-recovery poses substantial risks to ratepayers in 2009, a year in which one could reasonably expect continued escalation in the price of natural gas, coal, and oil, given the panoply of world events that are taking their toll on our energy markets.

While forecasts are not perfect, they are the means by which we predict future fuel costs, and FPL's forecasts are reasonable. Unfortunately, if their projections materialize, the rate impacts will be severe and will have been compounded by the deferral of half of the large 2008 under-recovery. Even if FPL were allowed to recover the entire projected 2008 under-recovery in the remaining months of 2008 (Option A), FPL projected the 2009 fuel component would remain almost \$12 per 1,000 kWh higher than the current fuel component. By comparison, deferring half of the 2008 under-recovery (Option C) is projected to result in a 2009 fuel component over \$15 per 1,000 kWh higher than the current fuel component. If fuel prices continue to escalate and under-recoveries grow larger, the compounding effect could be more severe in 2009. In fact, the recommendation cites to a June 20, 2008, letter from FPL, indicating that, based on June 16, 2008, forward curves for oil and gas, FPL would be under-recovered by an additional \$300 million in 2008 beyond the amount identified in its petition.

My support for Option A is premised on several key factors, including accuracy of price signals to customers; relatively levelized customer bills from August 2008 through December 2009; compounding effects of deferring the mid-course correction; projected 2009 increases to non-fuel rates regarding nuclear costs, environmental costs, and base rate adjustments;¹ interest costs associated with deferring the under-recovery; and reduced intergenerational inequity. Weighing each of these factors and in reviewing the projected rate impacts of the four options delineated in the recommendation, it is clear that Option A is the most practical choice in consideration of both short-term and long-term impacts on the consumer. In fact, as staff stated in its June 23, 2008, recommendation:

It is apparent that both the 2009 fuel factor increases and 2009 bill impacts under Options B, C, and D are high relative to Option A. [. . .] Option A appears to offer the greatest degree of stability in the fuel factor from 2008 to 2009.

In closing, I share the concerns of my colleagues about the mounting pressure on consumers of rising prices across numerous industries. While the majority's decision was understandably influenced by this fact, I am afraid that this decision, which unquestionably mitigates immediate rate impact, may increase the severity of the rate impact in the near future. Consistent with long-standing regulatory principles and a host of past Commission orders, reasonable fuel costs are recoverable.² Therefore, if the projected increases in fuel costs materialize and are ultimately shown to be reasonable, those increased costs will be reflected in future fuel factors, and the rate shock at that time will be greater due to the compounding effect

¹ According to staff's recommendation, FPL's 2009 rate and bill projections do not include its net under-recovery (as of May 31, 2008) of \$38 million from other non-fuel clauses.

² Fuel cost recovery does not involve a profit element; therefore, fuel cost recovery does not increase utility profits.

of the deferral of half of the 2008 under-recovery. While I sincerely hope that does not occur, that risk is the basis for my dissent from the majority's decision. All stakeholders should work together to ensure that consumers are made aware of, and prepared to the greatest extent possible for, the significant projected cost increases in 2009.

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 Office of Commission Clerk, 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.

OPTION A

COMPANY: FLORIDA POWER & LIGHT COMPANY

SCHEDULE E10

	CURRENT	MIDCOURSE	DIFFERENCE		PRELIMINARY	DIFFERENCE		PRELIMINARY	DIFFERENCE	
	MAY 08 - JUL 08	CORRECTION AUG 08 - DEC 08	\$	%	JAN 09 - MAY 09	\$	%	JUN 09 - DEC 09	\$	%
BASE	\$39.37	\$39.37	\$0.00	0.00%	\$39.37	\$0.00	0.00%	\$40.76	\$1.39	3.53%
FUEL	\$52.27	\$68.15	\$15.88	30.38%	\$64.16	(\$3.99)	-5.85%	\$64.16	\$0.00	0.00%
CONSERVATION	\$1.45	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%
CAPACITY PAYMENT	\$5.46	\$5.46	\$0.00	0.00%	\$7.97	\$2.51	45.97%	\$7.97	\$0.00	0.00%
ENVIRONMENTAL	\$0.40	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%
STORM RESTORATION SURCHARGE	<u>\$1.11</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>
SUBTOTAL	\$100.06	\$115.94	\$15.88	\$0.30	\$114.46	(1.48)	-1.28%	\$115.85	\$1.39	1.21%
GROSS RECEIPTS TAX	<u>\$2.57</u>	<u>\$2.97</u>	<u>\$0.40</u>	<u>15.56%</u>	<u>\$2.93</u>	<u>(0.04)</u>	<u>-1.35%</u>	<u>\$2.97</u>	<u>\$0.04</u>	<u>1.37%</u>
TOTAL	<u>\$102.63</u>	<u>\$118.91</u>	\$16.28	15.86%	<u>\$117.39</u>	(1.52)	-1.28%	<u>\$118.82</u>	\$1.43	1.22%

OPTION B

COMPANY: FLORIDA POWER & LIGHT COMPANY

SCHEDULE E10

	CURRENT	PRELIMINARY	DIFFERENCE		PRELIMINARY	\$	%
	<u>MAY 2008 - JUL 2008</u>	<u>JAN 2009 - MAY 2009</u>	<u>\$</u>	<u>%</u>	<u>JUN 2009 - DEC 2009</u>		
BASE	\$39.37	\$39.37	\$0.00	0.00%	\$40.76	\$1.39	3.53%
FUEL	\$52.27	\$71.07	\$18.80	35.97%	\$71.07	\$0.00	0.00%
CONSERVATION	\$1.45	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%
CAPACITY PAYMENT	\$5.46	\$7.97	\$2.51	45.97%	\$7.97	\$0.00	0.00%
ENVIRONMENTAL	\$0.40	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%
STORM RESTORATION SURCHARGE	<u>\$1.11</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>
SUBTOTAL	\$100.06	\$121.37	21.31	21.30%	\$122.76	\$1.39	1.15%
GROSS RECEIPTS TAX	<u>\$2.57</u>	<u>\$3.11</u>	<u>0.54</u>	<u>21.01%</u>	<u>\$3.15</u>	<u>\$0.04</u>	<u>1.29%</u>
TOTAL	<u>\$102.63</u>	<u>\$124.48</u>	21.85	21.29%	<u>\$125.91</u>	\$1.43	1.15%

OPTION C

COMPANY: FLORIDA POWER & LIGHT COMPANY

SCHEDULE E10

	CURRENT	MIDCOURSE	DIFFERENCE		PRELIMINARY	DIFFERENCE		PRELIMINARY	DIFFERENCE	
	MAY 08 - JUL 08	CORRECTION	\$	%	JAN 09 - MAY 09	\$	%	JUN 09 - DEC 09	\$	%
BASE	\$39.37	\$39.37	\$0.00	0.00%	\$39.37	\$0.00	0.00%	\$40.76	\$1.39	3.53%
FUEL	\$52.27	\$60.21	\$7.94	15.19%	\$67.61	\$7.40	12.29%	\$67.61	\$0.00	0.00%
CONSERVATION	\$1.45	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%
CAPACITY PAYMENT	\$5.46	\$5.46	\$0.00	0.00%	\$7.97	\$2.51	45.97%	\$7.97	\$0.00	0.00%
ENVIRONMENTAL	\$0.40	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%
STORM RESTORATION SURCHARGE	<u>\$1.11</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>
SUBTOTAL	\$100.06	\$108.00	\$7.94	\$0.15	\$117.91	9.91	9.18%	\$119.30	\$1.39	1.18%
GROSS RECEIPTS TAX	<u>\$2.57</u>	<u>\$2.77</u>	<u>\$0.20</u>	<u>7.78%</u>	<u>\$3.02</u>	<u>0.25</u>	<u>9.03%</u>	<u>\$3.06</u>	<u>\$0.04</u>	<u>1.32%</u>
TOTAL	<u>\$102.63</u>	<u>\$110.77</u>	\$8.14	7.93%	<u>\$120.93</u>	10.16	9.17%	<u>\$122.36</u>	\$1.43	1.18%

OPTION D

COMPANY: FLORIDA POWER & LIGHT COMPANY

SCHEDULE E10

	CURRENT	MIDCOURSE	DIFFERENCE		PRELIMINARY	DIFFERENCE		PRELIMINARY	DIFFERENCE	
	MAY 08 - JUL 08	AUG 08 - DEC 08	\$	%	JAN 09 - MAY 09	\$	%	JUN 09 - DEC 09	\$	%
BASE	\$39.37	\$39.37	\$0.00	0.00%	\$39.37	\$0.00	0.00%	\$40.76	\$1.39	3.53%
FUEL	\$52.27	\$56.95	\$4.68	8.95%	\$69.03	\$12.08	21.21%	\$69.03	\$0.00	0.00%
CONSERVATION	\$1.45	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%
CAPACITY PAYMENT	\$5.46	\$5.46	\$0.00	0.00%	\$7.97	\$2.51	45.97%	\$7.97	\$0.00	0.00%
ENVIRONMENTAL	\$0.40	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%
STORM RESTORATION SURCHARGE	<u>\$1.11</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>
SUBTOTAL	\$100.06	\$104.74	\$4.68	\$0.09	\$119.33	14.59	13.93%	\$120.72	\$1.39	1.16%
GROSS RECEIPTS TAX	<u>\$2.57</u>	<u>\$2.69</u>	<u>\$0.12</u>	<u>4.67%</u>	<u>\$3.06</u>	<u>0.37</u>	<u>13.75%</u>	<u>\$3.10</u>	<u>\$0.04</u>	<u>1.31%</u>
TOTAL	<u>\$102.63</u>	<u>\$107.43</u>	\$4.80	4.68%	<u>\$122.39</u>	14.96	13.93%	<u>\$123.82</u>	\$1.43	1.17%