

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Generic Investigation of) DOCKET NO. 910794-EQ
the proper recovery of purchased) ORDER NO. 25773
power capacity cost by investor-) ISSUED: 02/24/92
owned electric utilities.)
_____)

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
SUSAN F. CLARK
J. TERRY DEASON
BETTY EASLEY
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION

ORDER CONCLUDING GENERIC INVESTIGATION AND DETERMINING
THE PROPER RECOVERY OF PURCHASED POWER CAPACITY COSTS BY
INVESTOR-OWNED ELECTRIC UTILITIES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Case Background

On May 7, 1991, the Florida Industrial Power Users Group (FIPUG) filed a petition to change the way in which Florida Power & Light allocates the capacity related portion of purchased power costs to rate classes. (Docket No. 910580-EQ). Currently all fuel related costs are allocated on an energy (KWH) basis. FIPUG's petition requested that the capacity costs currently recovered through the fuel factor and Oil Backout factor be identified and allocated on a demand basis and recovered through a new factor known as a capacity cost recovery factor. The new factor would be changed every six months with other fuel related charges.

Our staff supported the theory proposed by FIPUG but recommended that a thorough investigation of the ramifications of such a change should be conducted. We allowed FP&L to begin the implementation of such a charge with the October 1991 fuel filings

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on an experimental basis, but also agreed that a generic investigation should be initiated to more completely examine the concept proposed by FIPUG, and its impact on other investor-owned utilities.

A workshop was held on October 25, 1991 for all investor-owned utilities and other interested parties to discuss the feasibility and desirability of requiring all investor-owned electric utilities to implement such a charge. A synopsis of the results of the workshop was prepared by our staff and circulated to all parties of record for comments. Comments were received from all workshop participants. At our agenda conference on February 4, 1992, we reviewed the results of the generic investigation and made the following determinations:

Capacity Cost Factor

We find that a purchased power capacity cost factor is a theoretically sound concept for the recovery of capacity related purchased power costs. Demand related costs should be treated the same whether the costs result from construction or purchase.

Pursuant to legislative directive, this Commission has actively encouraged Florida's electric utilities to purchase power from reliable generating sources in order to minimize the construction of new utility generating facilities. As more cogeneration and independent power projects come on line, the cost of purchased power will become an increasing proportion of utility fuel and purchased power costs.

Currently, purchased power costs are allocated to customer classes on their relative KWH (energy) consumption in the fuel proceedings. If a utility were to build capacity instead of buy it, the capacity costs would be allocated to customer classes based on their contribution to demand, as reflected in the utility's approved cost of service study. We agree that there is a conflict between the treatment of capacity built and capacity purchased in terms of who pays how much of the cost.

Commission Rules 25-17.0825(6) and 25-17.0832(8), Florida Administrative Code currently require all costs of cogenerated power purchases to be passed through fuel. Therefore, the primary costs we are concerned with here are purchases from other utilities or Independent Power Producers (IPPS). There appeared to be

general agreement at the workshop that there are no legal restrictions in the design of the fuel clause itself that would preclude recovery of purchased capacity demand cost, including those currently recovered through base rates.

Workshop participants generally agreed that appropriate capacity contract sales revenues should be netted against purchased capacity costs in determining how much is recovered through any capacity recovery factor. In the past, the capacity portion of purchased power contracts has been recoverable through base rates, while the energy portion was passed through fuel. Most companies still have at least some of these costs in base rates.

TECO has capacity sales contracts but no purchased power contracts. Gulf's purchases are limited to their Intercompany Interexchange Contract with Southern Company. Both Gulf and TECO agreed in principle to a capacity recovery factor but were reluctant to implement such a factor outside of a rate case, since all relevant costs and revenues are currently included in their base rates. Florida Power Corporation (FPC) has already removed certain specific contract costs from base rates. In FPC's last rate case (Docket No. 870220-EI), the cost of its purchased power contract with Southern Company and its power sales to Seminole Electric Cooperative were removed from base rates and placed in fuel costs as part of the stipulation in that case. At the present time, however, FPC allocates these costs on an energy basis, as with all other fuel related costs.

Like fuel, the capacity factor calculation will be based on projected usage. Therefore, any methodology for computing a capacity recovery factor should include a true-up mechanism based on actual usage. The subsequent factor will be adjusted up or down, just as is done in fuel. FPL proposed a true-up procedure in Docket No. 910580-EQ which we believe adequately addresses the issue. FPL's proposed true-up procedure is discussed in detail below in the section of this order entitled "true-up mechanism".

Capacity Payment Charge

We will require investor-owned utilities to implement a capacity payment charge to recover demand related capacity costs currently recovered through the Fuel or Oil Backout adjustment factors, as approved for FPL in Order 2480, effective for the October 1992 Fuel Adjustment period.

We agreed in Docket No 910580-EQ that an inequity exists in the recovery of capacity related costs between purchased capacity and constructed capacity. The results of the October 25 workshop support that position. All parties agreed that the demand portion of capacity costs should be treated the same, no matter how those costs were incurred. The cost of capacity constructed by the utility would be allocated to each customer class based on the class's contribution to peak demand or KW, and purchased power capacity costs should be similarly allocated. To allocate purchased power capacity costs on energy (KWH) penalizes high load factor customers to the benefit of lower load factor customers who may be just as responsible for the peak KW demand. The cost is incurred to provide capacity based on maximum KW required and should be recovered accordingly on a demand basis.

In order to match costs and revenues, we also find revenues related to demand capacity sales to be netted against demand related capacity costs to determine the amount recoverable through a capacity recovery factor. If similar costs and revenues are not considered together, the factor will be too high. As with costs, only those revenues considered in fuel or oil backout calculations should be included. Revenues currently accounted for in base rates will be treated the same as costs in base rates.

Capacity Related Purchased Power Costs

The approach approved for FPL for October 1991 fuel filings simply reallocated dollars currently recovered through the fuel and oil backout factors on an energy basis. It did not address costs currently recovered through other rates, or costs that are not being recovered at all. The workshop explored additional costs which could be considered capacity related but which are not currently recovered through a fuel related charge.

Currently, only the energy portion of long term contracts are handled in fuel. The capacity portion of the contracts has been recovered through base rates. No matter when the contract is implemented, the capacity portion of those costs are not recoverable until the utility has a full requirements rate case. This has proved to be a disincentive to utilities exploring options to building capacity, if they do not anticipate a rate case in the near future. FPL currently has such a situation in its long term contract with Jacksonville Electric Authority (JEA). The utility is recovering the fuel related costs of the contract but not the demand related portion, because the contract was initiated since their late rate case.

We will permit utilities to include capacity related purchased power costs not currently being recovered through the fuel or oil backout charges in the calculation of a capacity recover factor for contracts entered into since the utility's last rate case. Purchased power demand costs currently being recovered in base rates are to remain in base rates until the utility's next general rate case. A limited proceeding to extract such costs from base rates would likely be difficult and possibly result in other inequities.

FPC and FIPUG suggested other costs which may be appropriate for inclusion in a capacity factor. FPC stated that any other fixed non-fuel costs associated with the purchase of capacity (such as non-fuel O&M) should also be considered as well as any related transmission wheeling charges. FIPUG also suggested that conservation programs are related to demand side management and peak shaving. Therefore, we find any incentive payments under such programs to be capacity costs and are to be included in the recovery factor. While there may be merit in these suggestions, we do not have sufficient information at this point to determine definitively what additional items may be appropriate. The suggestions would require consideration in a rate case or other generic proceeding to determine the exact nature and magnitude of such new charges. For the purposes of this docket, we find the recovery factor to be limited to approval of demand related capacity costs specifically identified in purchased power contracts. Other issues may be taken up in appropriate forums for possible inclusion on a utility by utility basis.

Demand Allocator

Investor-owned utilities are required to conduct extensive load research under Rule 25-6.0437. The demand allocator will be developed using the cost methodology approved in their last rate case, and the load research methodology approved under Rule 25-6.0437. Load factors are to be updated every two years in conjunction with the load research studies.

We specifically limit discussion in the fuel proceeding to the adjustments to the load factors and dollars to be allocated. The cost of service methodology approved in the utility's last rate case is accepted as a base condition. Cost of Service debates often require several days of testimony and several witnesses in a rate case. Discussion of cost allocation methodologies in a fuel proceeding would require companies to incur considerable expense in preparing for the possibility of such a challenge, and would require significantly more Commission and Staff time. We do not

believe any differences which might be uncovered in such a debate would have a significant impact on the customers, considering the total dollar amount expected to be collected by the capacity factor. In addition, having a different allocation methodology for fuel than for base rates could create more inequities than the minor adjustments would cure. The Commission's fuel adjustment hearings are designed to administer the recovery of fuel and fuel related costs on an ongoing, timely basis. They are not structured to address major policy issues which affect base rates. Such matters are more appropriately considered in other utility specific proceedings.

True-up Mechanism

We order that the true-up mechanism for all subject utilities be designed to adjust for over or under recovery of capacity costs as we previously approved for FPL in Docket No. 910570-EQ. At the end of the period, the amount paid for capacity is compared to the amount collected through the factor to arrive at a system over or under recovery amount for the period, as is done in fuel. The amount of over or under recovery is then added to the next period's projected expenses which will be allocated to classes using the projected demand allocation factors for the next period.

If there are significant shifts among classes during the six month period, using a system true-up based on projected allocation factors may misallocate the true-up amount. If class composition changes, load factor could change. Using a system method, the amount of true up would be allocated based on the class composition as it is expected to be for the next period, not what actually existed during the prior period.

True-up on a class basis would require recalculating last period's cost responsibility by recomputing allocation factors for each class using actual KWH by class. The actual revenues collected by class are then compared to actual class cost responsibility based on the recomputed factors. The true-up amount calculated for each class would be added to the class's cost responsibility for the next period to determine the factor for the next period, after calculating new allocation factors and cost responsibility by class based on projected data for the next period. While class true-up is possible, the procedure is very cumbersome and expensive. We do not believe the additional degree of accuracy a class true-up would yield is cost-justified.

At the workshop, participants considered how the factor will be incorporated into the customer's bill. While our staff originally favored a separate line item on customers' bills for the new charge, on further analysis they became convinced, and we agree, that a separate line for what was previously bundled in the KWH charge would likely cause more confusion than enlightenment for customers. Therefore, we find that while the Capacity Recovery Factor will be separately computed (as are Oil Backout costs (OBO) and Energy Conservation Cost Recovery (ECCR), it will remain a part of a single KWH charge on the bill.

We recognize that our present decision to implement a change in the manner in which electric utilities recover the demand related portions of purchased capacity costs is only a first step to the full development of a capacity recovery factor. It is a relatively straightforward process to change allocation factors for costs already recovered through some type of fuel charge, or to include costs not recovered elsewhere. Determining the base rate costs which may be appropriate for recovery through such a charge, however, is more complicated. Each utility, by virtue of its operations and procedures, may have additional costs which could reasonably be removed from rate base and placed in a capacity recovery factor, but these costs should be considered on an individual basis, in the context of a specific rate case.

We believe we have reached a general consensus on the conceptual design and implementation of a capacity recovery factor. We will therefore require investor-owned electric utilities to implement a capacity recovery charge for any demand related capacity costs currently being recovered through fuel or OBO, as well as any demand related capacity costs not currently included in base rates. The new factor will be effective beginning with the October 1992 fuel adjustment period.

It is therefore

ORDERED by the Florida Public Service Commission that a purchased power capacity cost factor is a theoretically sound concept for the recovery of capacity related purchased power costs, and demand related costs should be treated the same whether the costs result from construction or from purchase. It is further

ORDERED that investor-owned utilities implement a capacity payment charge to recover demand related capacity costs currently recovered through the Fuel or Oil Backout adjustment factors, as approved for FPL in Order 2480, and effective for the October 1992 Fuel Adjustment period. It is further

ORDERED that capacity related purchased power costs not currently being recovered in any manner may be included in the capacity recovery factor. Those costs currently being recovered in base rates will remain in base rates until the utility's next general rate case. It is further

ORDERED that the demand allocator be developed using the utility's last approved cost of service methodology, updated annually using current load factor information. It is further

ORDERED that the true-up mechanism for all subject utilities be designed to adjust for over or under recovery of capacity cost as we previously approved for FPL in Docket No. 910570-EQ. It is further

ORDERED that this Order shall become final and the docket closed unless an appropriate petition for formal proceeding is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission, this
24th day of FEBRUARY, 1992.



STEVE TRIBBLE, Director
Division of Records and Reporting

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Commissioner Deason dissented from that portion of the decision that allowed recovery of costs not presently recovered through the fuel clause.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on 3/16/92.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting 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 of the effective date 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.