State of Florida

ORIGINAL

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: April 3, 1998

TO: Blanca Bayo, Director; Division of Records and Reporting

FROM: Todd Bohrmann, Regulatory Analyst; Division of Electric and Gas TB

RE: Request to enter documents into Docket No. 980269-PU file

Attached please find the following three documents:

1. Nine page letter from Samuel S. Waters of Florida Power & Light Company, dated March 31, 1998;

2. Five page letter from James A. McGee of Florida Power Corporation, dated March 30, 1998; and

3. Three page letter from Anne V. Wood of Central Florida Gas, dated March 25, 1998.

Florida Power & Light Company, Florida Power Corporation, and Central Florida Gas filed these documents with Commission technical and legal staff, not the Division of Records and Reporting. Therefore, please enter these documents in the official docket file for Docket No. 980269-PU, titled "Consideration of Change in Frequency and Timing of the Hearings for the Fuel and Purchased Power Cost Recovery Clause, the Capacity Cost Recovery Clause, the Generation Performance Incentive Factor, the Energy Conservation Cost Recovery Clause, the Purchased Gas Adjustment (PGA) True-Up, and the Environmental Cost Recovery Clause."

If you have any questions about this request, you may contact me at 413-6445. Thank you.

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FPSC-RECORDS/REPORTING

FPL

P.O. Box 029100, Miami, FL 33102-9100

March 31, 1998

MAR 31

Mr. Todd Bohrmann
Division of Electric and Gas
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Docket No. 980269-PU

Dear Mr. Bohrmann:

Enclosed is Florida Power & Light Company's (FPL) responses to Staff's March 17, 1998 Workshop Questions. In addition, for the Environmental Cost Recovery transition, FPL originally proposed that a Final True-up for October 1997 - July 1998 and August 1998 - December 1998 could be addressed at the Novenber 1998 and November 1999 Hearings, respectively. It has been suggested that the Final True-up for the entire period October 1997 - December 1998 be addressed at the November 1999 Hearings. FPL believes that suggestion has merit and will simplify the audit process.

If you have any questions, please call Terry Keith at (305) 552-4334.

Sincerely,

Samuel S. Waters

Samuel S. Waters
Director of Regulatory Affairs

cc: All Parties

Attachments

Staff Workshop Questions - Docket No. 980269-PU - Annual Filings

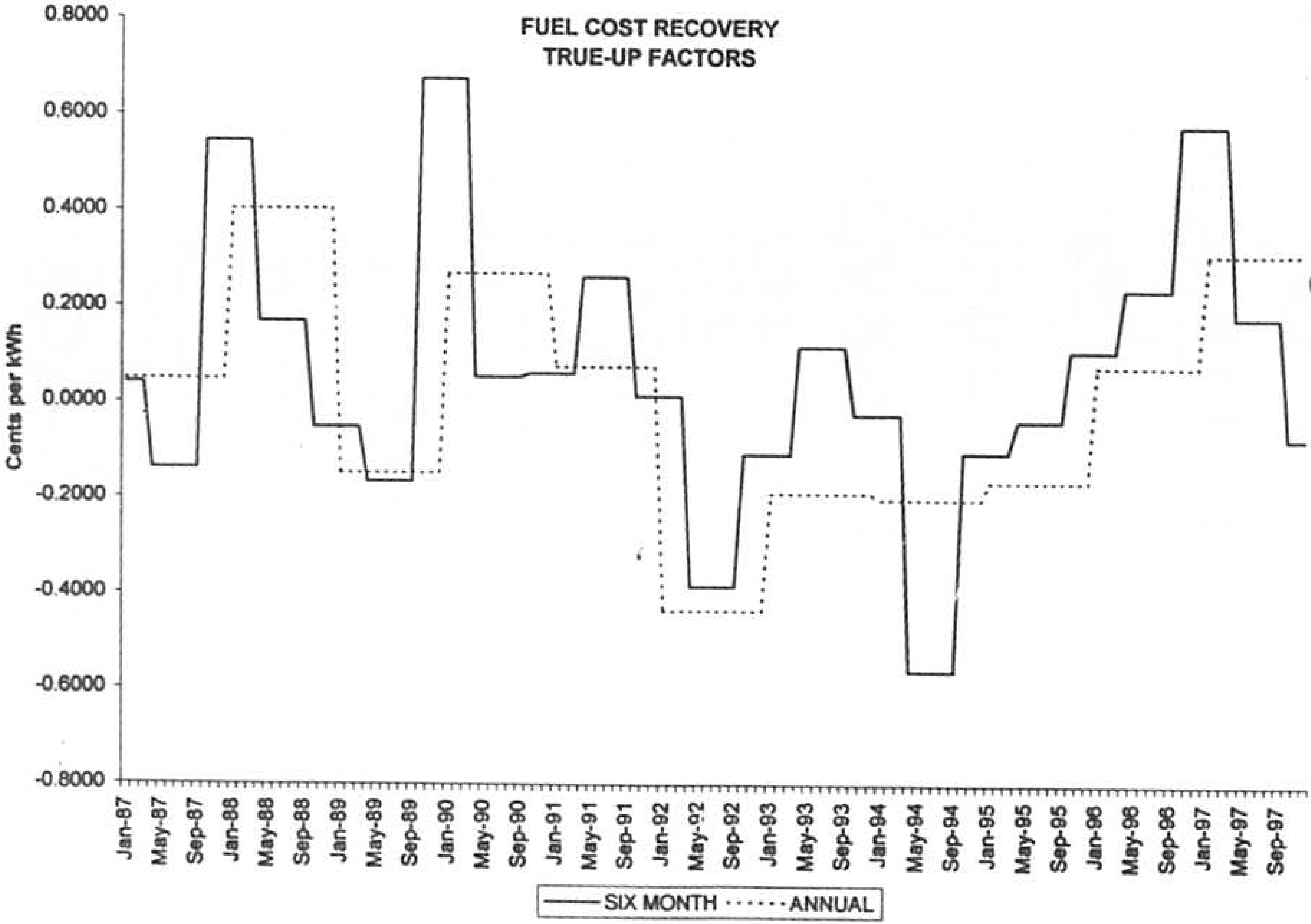
1. **Based upon historical data over the past 10 years, what impact would a Commission decision [to change to an annual, calendar year fuel factor] have upon the size of the utility's over/under recovery?**

FPL has performed an analysis of the over/under recoveries for a historical ten year period which shows that an annual, calendar methodology would have resulted in significantly less fluctuations in the true up minimizing the impact on customers. See Attachment 1, page 1 of 2. By using the annual methodology, variability in the level of the true up would have been reduced by about 15% in the past ten years and by almost 30% in the past five years. Short-term variations from the fuel forecast tend to be offsetting over the duration of a one year period. Over/ under recoveries are caused by actual fuel prices (particularly oil and gas) behaving differently than forecasted primarily due to unpredictable short-term fluctuations in oil and gas markets such as:

- political events
- weather driven demand
- commodity trading impact on short term prices
- weather effects on production capabilities (e.g., hurricanes)

Typically, these are events that have a short-term impact on fuel prices, so the fluctuations would be more likely to be offset during a longer (i.e., one year) period. Additionally, shifts in planned maintenance schedules, as well as unplanned outages, tend to be offsetting over an annual period. Also, load fluctuations, primarily caused by weather, would be more likely to be offset during a longer period.

Moreover, the analysis of the fuel clause for a historical ten year period shows that using an annual, calendar year methodology would have resulted in significantly less fluctuations in the fuel factor. See Attachment 1, page 2 of 2. Variability in the level of the fuel factor would have been reduced by about 10% in the past 10 years and by almost 25% in the past 5 years. Under the annual methodology, the changes in the fuel factor are minimized and occur less frequently, resulting in more stable and predictable electric bills as requested by customers.


FUEL COST RECOVERY
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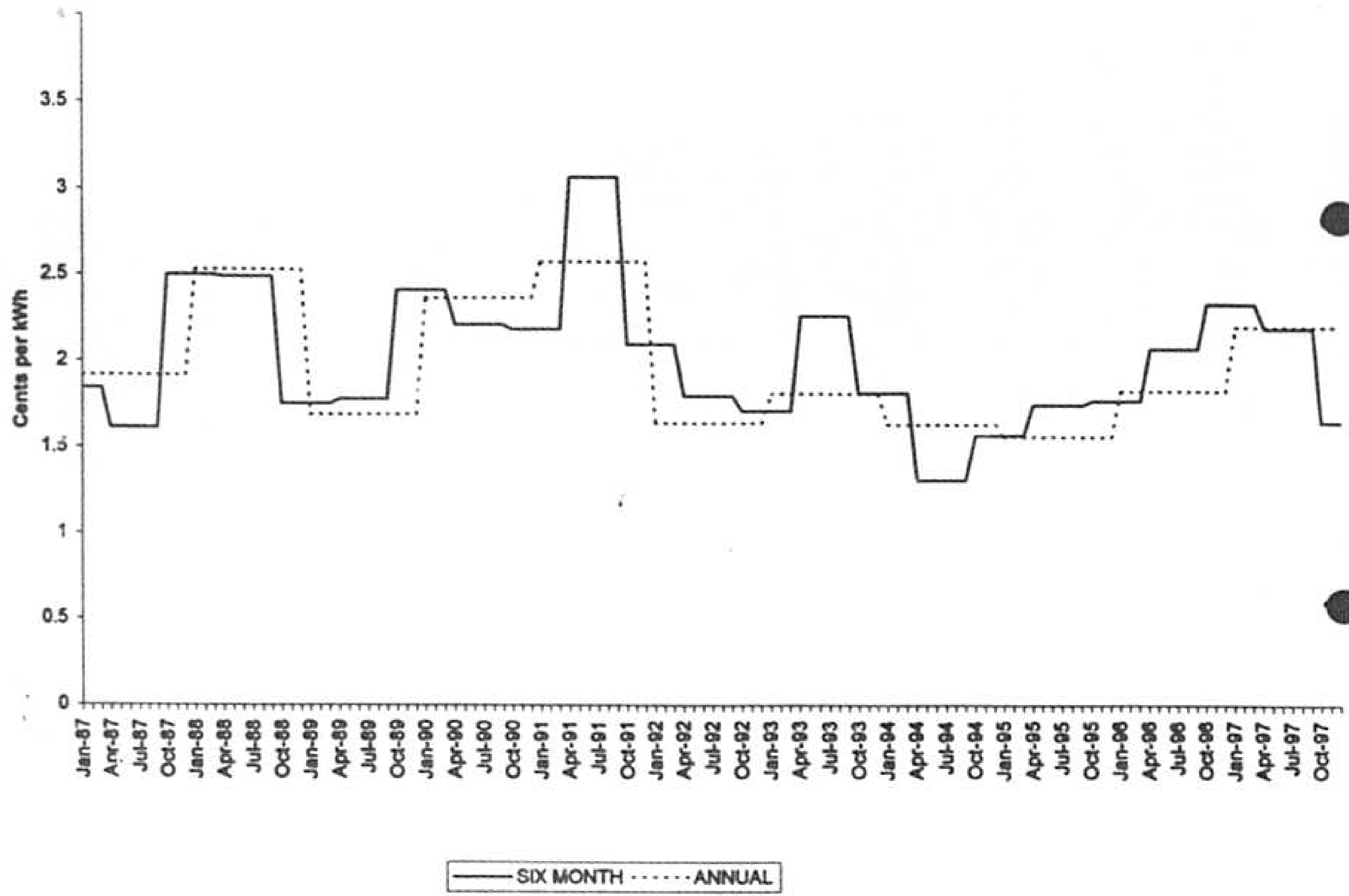
FUEL COST RECOVERY
ANNUAL VS SIX MONTH FACTOR



Attachment 1
Page 2 of 2

2. **If the Commission adopts an annual hearing for the fuel clause and the environmental clause, should the Commission revise its 10 percent threshold as a basis to request a midcourse correction?**

FPL believes that the 10 percent midcourse correction rule has worked well in the past and should continue to be used. If the 10% threshold was lowered, it would potentially reduce the benefits of an annual forecast whereby short term variations will likely be offset over the course of the period.

3. **During the past 10 years, how frequently would the utility had requested approval for a midcourse correction based upon a 10 percent threshold?**

Midcourse corrections should occur less frequently, since a forecast of fuel costs for a year would likely tend to be more accurate than it would be for six months. (See response to Question No. 1.) Furthermore, if there were a midcourse correction, it would most likely be spread over a greater period of time and the impact on the customer would be minimized.

4. **It has been suggested that a utility could submit interim petitions between hearings for special or unanticipated issues. What threshold level of costs would cause a change in the fuel factor?**

FPL is suggesting that interim petitions, like those that have been used in the past, should continue to be used. For example, if FPL was evaluating a supply contract which included plans to build a gas pipeline, FP_ could submit an interim petition requesting approval of the pipeline addition for fuel cost recovery treatment. If approved, FPL would be allowed to capture the costs associated with the pipeline addition and include the costs in the next true up filing. This alone probably would not change the factor in place at the time. The threshold level of costs that would cause a change in the fuel factor should continue to be 10 percent.

5. It has also been suggested that an annual fuel factor would provide customers with a greater level of certainty about [their payments for electricity]. Over the past 12 months, how many customers have expressed this concern?

Through FPL's voluntary Budget Billing Program, approximately 200,000 of FPL's residential customers have already demonstrated that controlling volatility in their electric bills is important. Under Budget Billing, customers' monthly charges are based on their average annual electric usage, not just what they use during the billing period. This allows them to avoid the seasonal variations in electric bill payments caused by higher usage during the heating and cooling months because it spreads these costs throughout the year; thus, customers' bills are levelized throughout the year.

Customer feedback to account managers and marketing representatives indicate that stable prices are a top priority. Customers do not like volatility and fluctuation in their electric rates. FPL maintains that annual, calendar year adjustment factors (not just fuel) provide customers with greater certainty about their total charge for electricity because it provides one predictable and stable 12-month charge for electricity. For example, a customer preparing an annual budget will know in November what their charge for electricity will be for the next year. FPL does not log or keep a record of this customer feedback, but recognizes it is significant, particularly with most businesses and governmental entities (i.e. school boards, administrative offices, etc.) that are concerned with accurate budgeting. A change to the annual, calendar methodology will allow customers to improve the accuracy of their annual budgets and thus solidify their annual operating plans.

6. If the Commission adopts an annual hearing for the fuel clause and environmental clause, would the utility change any of its forecasting models, methodologies, assumptions, or data sources?

FPL does not anticipate any changes.

7. **Which form modifications would be necessary to accommodate the change to an annual hearing?**

<u>For Fuel</u> - E Schedules and the H Schedule would need to be reformatted to reflect 12 months of data and the A Schedules' period-to-date columns would need to be changed to reflect year-to-date.

<u>For GPIF, Capacity, Environmental and Conservation</u> - since these clauses are already annual, only the months would need to be changed to reflect the calendar year.

8. **What are the expected advantages and savings of conducting the costs recovery hearing on an annual basis?**

The major expected advantages are:

- The annual, calendar year methodology results in <u>one charge for electricity set in place for a one year period</u>, from January through December which coincides with most customers' budget period. FPL believes that this change provides customers with greater certainty because it provides a predictable and stable 12-month charge for electricity. For example, a customer preparing an annual budget will know in November what their charge for electricity will be for the next year. Currently, FPL can only provide customers with charges for the first three months of the year, and there are three different charges in a year. These three charges are as follows:

  CURRENT METHOD
  Electric Charges for January through March (known in August)
  Electric Charges for April through September (not known until February)
  Electric Charges for October through December (not known until August)

  The change to annual, calendar adjustment charges results in the following:

  PROPOSED CHANGE

  Electric Charges for January through December (known in November)

- This change to an annual recovery period will minimize the volatility/ fluctuation in customers' bills from one period to the next because it eliminates seasonality in the fuel charge.

- Since the fuel data will be in calendar form, it will be easier to use because it will be comparable to the way other information is kept and reported by FERC, DOE and other agencies.

- There will [redacted] Filing fuel cost recovery on an annual basis will greatly reduce the amount of paperwork produced, filed and processed by FPL, the Commission, and other parties. In addition, FPL's legal expenses, as well as other costs such as postage and travel would be reduced.

9. What are the expected disadvantages and cost of conducting cost recovery hearings on an annual basis?

None.

10. When should the Commission implement the change to annual hearings?

The change should be implemented for calendar year 1999. FPL proposes the following schedule for all clauses:

True-up filing	-	Mid September 1998
Projection Filing	-	Beginning of October 1998
Discovery Period	-	Mid September - Mid November
Hearing	-	Mid November 1998
Effective date of factors	-	With customer billings from January 1999 through December 1999

11. What are the expected advantages of calculating the cost recovery factors based upon a calendar year basis?

The major expected advantages are:

- It results in one charge for electricity set in place for a one year period, from January through December which coincides with most customers' budget period. FPL believes that this change provides customers with greater certainty because it provides a predictable and stable 12-month charge for electricity. For example, a customer preparing an annual budget will know in November what their charge for electricity will be for the next year. Currently, FPL can only provide customers with charges for the first three months of the year, and there are three different charges in a year. These three charges are as follows:

  CURRENT METHOD
  Electric Charges for January through March (known in August)
  Electric Charges for April through September (not known until February)
  Electric Charges for October through December (not known until August)

  The change to annual, calendar adjustment charges results in the following:

  PROPOSED CHANGE
  Electric Charges for January through December (known in November)

- This change to an annual recovery period will minimize the volatility/ fluctuation in customers' bills from one period to the next because it eliminates seasonality in the fuel charge.

- Since the fuel data will be in calendar form, it will be easier to use because it will be comparable to the way other information is kept and reported by FERC, DOE and other agencies.

12. What are the expected disadvantages of calculating the cost recovery factors based upon a calendar year basis?

None.

13. What are the expected advantages of calculating the cost recovery factors based upon a non-calendar year basis?

A change to an annual, non-calendar, fuel recovery period does have some benefit since it will minimize the changes in a customer's fuel charge from one period to the next because it eliminates seasonality in the fuel charge. However, a much greater benefit is gained from changing to annual, calendar year, adjustment factors. An annual, calendar year methodology is more customer oriented because it results in one charge for electricity set in place for a one year period, from January through December. The annual, calendar year methodology provides customers with greater certainty because it provides a predictable and stable 12-month charge for electricity. For example, a customer preparing an annual budget will know in November what their charge for electricity will be for the next year. Currently, FPL can only provide customers with charges for the first three months of the year, and there are three different changes in a year. This change to an annual recovery period will minimize the volatility and fluctuation in customers' bills. And, since the fuel data will be in calendar form, it will be easier to use because it will be comparable to the way other information is kept and reported by FERC, DOE and other agencies.

14. What are the expected disadvantages of calculating the cost recovery factors based upon a non-calendar year basis?

Cost recovery factors calculated on a non-calendar year basis ignores the fact that the majority of customers use calendar year information for budget and other planning purposes. On a non-calendar year basis, customers' bills would change twice a year. The major benefit of annual, calendar year cost recovery factors is that it results in <u>one charge for electricity set in place for a one year period, from January through December</u>.

Florida
Power
CORPORATION

JAMES A. MCGEE
SENIOR COUNSEL

March 30, 1998

Leslie Paugh, Esquire
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RE: Docket No. 980269-PU

Dear Ms. Paugh:

Enclosed herein please find Florida Power Corporation's Post-Workshop Comments.

Very truly yours,

Mara Taylor for

James A. McGee

JAM/kp
Enclosures

GENERAL OFFICE
3201 Thirty-fourth Street South • Post Office Box 14042 • St. Petersburg, Florida 33733-4042 • (813) 866-5184 • Fax: (813) 866-4931
A Florida Progress Company

DOCKET No. 980269-PU

FLORIDA POWER CORPORATION'S POST-WORKSHOP COMMENTS

Florida Power supports the proposed change of the fuel adjustment proceeding to an annual, calendar year cycle, consistent with the Time Line contained in Staff's workshop handout. Florida Power also supports compatible changes to the ECCR and other cost recovery proceedings necessary for their conversion to a calendar year cycle (Florida Power is not a party to the 03 and 07 dockets). To minimize the possible need for an additional ECCR hearing if February 1999, Florida Power suggests consideration be given to initiating the required rulemaking now, with final action scheduled after the Commission's decision in this docket.

By way of further comment, Florida Power offers the following responses to the questions posed in Staff's workshop handout.

Q1 Based upon historical data over the past 10 years, what impact would a Commission decision have on the size of the utility's over/under recovery?

A1 As shown on the attached table, the difference between actual and estimated costs since 1989 (measured by the standard deviation) would have been lower utilizing an annual fuel adjustment cycle. This analysis suggests that the causes of cost variances (*e.g.* weather, fuel prices, unit availability) tend to average out over the longer period.

Q2 If the Commission adopts an annual hearing for the fuel clause and the environmental clause, should the Commission revise its 10 percent threshold as the basis to request a mid-course correction?

A2 No. While an annual cycle suggests the possibility of a higher over/under recovery in absolute dollars, it also provides a longer period of time over which to recover/refund the variance.

Q3 During the past 10 years, how frequently would the utility have requested approval for a mid-course correction based on a 10 percent threshold?

A3 Based on the analysis described in A1 above, it appears Florida Power would have requested no more, and probably less, mid-course corrections utilizing an annual fuel adjustment cycle.

Q4 It has been suggested that a utility could submit interim petitions between hearings for special or unanticipated issues. What threshold level of costs would cause a change in the fuel factor?

A4 Florida Power believes that no threshold for interim petitions should be established. The special or unanticipated issues subject to an interim petition could conceivably seek a Commission ruling on the recoverability of certain types of costs or the treatment of certain costs, as opposed to the magnitude of costs, and may not involve any change in the fuel factor.

Q5 It has also been suggested that an annual fuel factor would provide a utility's customers with a greater level of certainty about fuel costs. Over the past 12 months, how many customers have expressed this concern?

A5 Although Florida Power does not log customer inquiries in this manner, larger commercial and industrial customers have frequently asked for annual fuel charge information in conjunction with their budgeting activities.

Q6 If the Commission adopts an annual hearing for the fuel clause and environmental clause, would the utility change any of its forecasting models, methodologies, assumptions, or data sources?

A6 In Florida Power's case, no.

Q7 Which form modifications would be necessary to accommodate the change to an annual hearing?

A7 Any changes to the forms should be minimal. Existing forms could be maintained by dividing the year into two six-month periods.

Q8 What are the expected advantages and saving of conducting cost recovery hearing on an annual basis?

A8 The primary advantages of an annual vs. six-month cycle are:

- Significant savings in time spent preparing one filing instead of two. Costs will be cut in half because a twelve-month filing will take no more time to prepare than a six-month filing.
- Reduced travel expenses.
- Reduced customer confusion from fewer rate changes.
- Reduced workload for Staff.
- Fewer days scheduled on the Commission's hearing calendar.

Q9 What are the expected disadvantages and costs of conducting cost recovery hearing on an annual basis?

A9 Florida Power is aware of none.

Q10 When should the Commission implement the change to annual hearings?

A10 The change should be made effective with January 1999 billings in the manner shown on the fuel adjustment Time Line in Staff's workshop handout.

Q11 What are the expected advantages of calculating the cost recovery factors based upon a calendar year basis?

A11 The primary advantages of a calendar year cycle are:

- Matches customers budget period. Utilities will be able to provide estimates for the entire year.
- Matches Florida Power's internal budgeting cycle. This will reduce amount of time currently spent reconciling the budget and fuel projections.
- Analyses of fuel-related data can be performed more easily on a calendar year basis.

Q12 What are the expected disadvantages of calculating the cost recovery factors based upon a calendar year basis?

A12 Florida Power is aware of none.

Q13 What are the expected advantages of calculating the cost recovery factors based upon a non-calendar year basis?

A13 Compared to a calendar year basis, Florida Power is aware of none. Compared to the current six-month basis, see A8 above.

Q14 What are the expected disadvantages of calculating the cost recovery factors based upon a non-calendar year basis?

A14 Compared to a calendar year basis, see A11 above. Compared to the current six-month basis, Florida Power is aware of none.

3/30/98

FLORIDA POWER CORPORATION
Analysis of Variances between Actual and Estimated Total Fuel and Net Power Expenses
Six Month vs. Twelve Month periods

Six Month Periods

Period	Period	$ millions Actual	Estimated	Variance	Percent Variance
1	Apr-Sep 89	348	297	51	14.7%
2	Oct 89-Mar 90	264	272	(8)	-3.0%
3	Apr-Sep 90	348	348	-	0.0%
4	Oct 90-Mar 91	258	295	(37)	-14.3%
5	Apr-Sep 91	323	347	(24)	-7.4%
6	Oct 91-Mar 92	247	299	(52)	-21.1%
7	Apr-Sep 92	349	359	(10)	-2.9%
8	Oct 92-Mar 93	240	243	(3)	-1.3%
9	Apr-Sep 93	332	300	32	9.6%
10	Oct 93-Mar 94	224	234	(10)	-4.5%
11	Apr-Sep 94	337	303	34	10.1%
12	Oct 94-Mar 95	229	252	(23)	-10.0%
13	Apr-Sep 95	327	308	19	5.8%
14	Oct 95-Mar 96	286	243	43	15.0%
			Variance	31	[redacted]

Twelve Month Periods

Period	Period	$ millions Actual	Estimated	Variance	Percent Variance
1	Apr 89-Mar 90	612	569	43	7.0%
2	Apr 90-Mar 91	606	643	(37)	-6.1%
3	Apr 91-Mar 92	570	646	(76)	-13.3%
4	Apr 92-Mar 93	589	602	(13)	-2.2%
5	Apr 93-Mar 94	556	534	22	4.0%
6	Apr 94-Mar 95	566	555	11	1.9%
7	Apr 95-Mar 96	613	551	62	10.1%
			Variance	48	[redacted]

Notes: Data for periods prior to 1989 not available.
Variance data for 1997 not meaningful because of the extended nuclear outage.

CENTRAL FLORIDA GAS

1 30

March 25, 1998

Mr. Todd Bohrmann
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 980269-PU

Dear Mr. Bohrmann:

Attached please find our written comments in response to the workshop held on March 17, 1998 in this docket. Please do not hesitate to contact me if you have any questions.

Sincerely,

Anne V. Wood

Anne V. Wood
Accounting and Rates Manager

AVW
Enclosure

FLORIDA DIVISION
CHESAPEAKE UTILITIES CORPORATION
WRITTEN COMMENTS TO FPSC
WORKSHOP
DOCKET NO. 980269-PU

In Re: Consideration of Change in Frequency and Timing of the Hearings for the Fuel and Purchased Power Cost Recovery Clause, the Capacity Cost Recovery Clause, the Generation Performance Incentive Factor, the Energy Conservation Cost Recovery Clause, the Purchased Gas Adjustment (PGA) True-Up, and Environmental Cost Recovery Clause.

The Florida Division of Chesapeake Utilities Corporation (CUC) is a natural gas utility subject to the jurisdiction of the Florida Public Service Commission under Chapter 366, Florida Statutes. As such, CUC limits its comments to only those issues and questions directly related to natural gas utilities.

Staff Issue 5: Should the Commission approve a change to calculate the factor for the energy conservation cost recovery clause on a calendar year basis?

Company's Position : No. Absent some compelling reason beyond any comments cited at the workshop held on March 17, 1998 (budgeting and forecasting, etc.), CUC believes the energy cost recovery clause should continue as is unchanged. We see no benefit to changing from one annual cycle to another.

Staff Issue 6: Should the Commission approve a change to calculate the factor for the purchased gas adjustment (PGA) true-up on a calendar year basis?

Company's Position : No. Absent some compelling reason beyond any comments cited at the workshop held on March 17, 1998 (budgeting and forecasting, etc.), CUC believes the purchased gas cost recovery true-up should continue as is unchanged. We see no benefit to changing from one annual cycle to another.

Discussion Question 11: What are the expected advantages of calculating the cost recovery factors based upon a calendar year basis?

Company's Position : None. We see no benefit to changing from one annual cycle to another.

Discussion Question 12: What are the expected disadvantages of calculating the cost recovery factors based upon a calendar year basis?

Company's Position : There are two disadvantages of calculating the cost recovery factors based upon a calendar year basis. The first disadvantage is that the calendar year does not "mirror" the seasonality of the natural gas business. The existing cycle fits very well with the seasonality of the natural gas utilities' business. With the current cycle, the summer and winter months are grouped together, (ie., April through September and October through March) within the same true-up period. Especially for the PGA mechanism, this cycle allows us to establish factors which send consistent pricing signals to our customers throughout the summer and winter seasons. Switching to a calendar year basis would result in a PGA true-up change in the middle of the winter season (January) which may send mixed pricing signals to our customers.

The other disadvantage which results from changing the recovery cycle is the necessity of a transition period which would occur in order to implement a change in recovery cycles. Transitions to new filing and reporting cycles are costly, time-consuming, and burdensome on utilities with lesser resources.

In summary, we believe that the cycles currently in effect (April - March) for both conservation cost recovery and purchased gas adjustment true-up which were established in 1993 are working very well. We see no reason to change to a calendar year basis.

Discussion Question 13: What are the expected advantages of calculating the cost recovery factors based upon a non-calendar year basis?

Company's Position : The advantage of calculating the cost recovery factors based upon a non-calendar year basis is that this is the methodology we use today. We would avoid a potentially confusing, costly and time-consuming transition period which would occur in order to implement a change in recovery cycles. We would continue to have a cycle that mirrors the seasonality of the natural gas business. As stated above, the cycles currently in effect are working very well.

Discussion Question 14: What are the expected disadvantages of calculating the cost recovery factors based upon a non-calendar year basis?

Company's Position : None. We see no disadvantage to keeping the current cost recovery cycles for conservation and purchased gas adjustment.