State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: FEBRUARY 22, 2001

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF SAFETY AND ELECTRIC RELIABILITY (BOHRMANN, MCNULTY)
DIVISION OF ECONOMIC REGULATION (E. DRAPER)
DIVISION OF LEGAL SERVICES (C. KEATING)

RE: DOCKET NO. 010001-EI - FUEL AND PURCHASED POWER COST RECOVERY CLAUSE AND GENERATING PERFORMANCE INCENTIVE FACTOR.

AGENDA: 03/06/01 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\SER\WP\010001P.RCM
Attachment B not included in electronic version

CASE BACKGROUND

By Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI, the Commission required each investor-owned electric utility to notify the Commission when its projected fuel revenues result in an over-recovery or under-recovery in excess of 10 percent of its projected fuel costs for the given recovery period. Depending on the magnitude of the over-recovery or under-recovery and the length of time remaining in the recovery period, a party may request, or the Commission may order on its own motion, a mid-course correction to the utility's authorized fuel cost recovery factors.

On February 8, 2001, Florida Power Corporation (Florida Power) notified the Commission that it currently anticipates that the fuel cost recovery factors approved by Order No. PSC-00-2385-FOF-EI, in Docket No. 000001-EI, issued December 12, 2000, will result in an

under-recovery greater than 10 percent. To address this under-recovery, Florida Power petitioned for approval of a mid-course correction to its fuel cost recovery factor, effective beginning with the cycle 1 billings for April 2001, until modified by a subsequent Commission order. Florida Power amended its petition on February 9, 2001 to make minor corrections related to inconsistent references to the requested effective date.

Florida Power's under-recovery consists of three parts: (1) a $29.4 million under-recovery for 2000; (2) a $73.0 million estimated under-recovery for 2001; and (3) a $27.6 million underrecovery for 2000 that the Commission deferred to 2002 in November 2000. Florida Power has requested that the Commission authorize Florida Power to change its fuel cost recovery factors to collect its 2000 under-recovery and its estimated 2001 under-recovery during the remainder of 2001.

ISSUE 1: Should the Commission approve a mid-course correction to Florida Power Corporation's (Florida Power) authorized fuel and purchased power cost recovery factors to collect the $29.4 million under-recovery for 2000?

RECOMMENDATION: Yes. The Commission should approve FPL's amended petition for a mid-course correction to collect the $29.4 million under-recovery for 2000. This approval would mitigate the rate impact of Florida Power collecting this amount during 2002. (McNULTY, C. KEATING)

STAFF ANALYSIS: Based on actual results through December, 2000, Florida Power experienced a $29.4 million under-recovery for 2000. The $29.4 million underrecovery for 2000 is primarily due to an approximate $17.2 million (2.1 percent) increase in Jurisdictional Fuel Costs & Net Power Transactions, an approximate $5.7 million (-0.5 percent) decrease in Jurisdictional Fuel Revenues, and an approximate $6.4 million decrease in revenue associated with the cumulative 1999 true-up provision.

The $17.2 million variance in Jurisdictional Fuel Costs and Net Power Transactions is due to a $15.1 million (2.0%) increase in generated power costs, plus a $15.3 million (6.5%) increase in purchased power costs,offset in part by an $8.8 million (6.5%) increase in power sales.

The reason for the $15.1 million variance in generated power costs was a large unexpected short-term increase in demand for both oil and natural gas during the last two months of 2000. In the short term, demand for these fuels is primarily dependent upon the weather. According to the National Climatic Data Center, the last two months of 2000 were the coldest November and December in 105 years nationwide. As natural gas prices rose, many electric utilities switched from natural gas-fired generation to oil-fired generation, when possible. These actions increased oil demand, which placed upward pressure on oil prices.

By Order No. 1369, issued September 20, 1984, the Commission established the guidelines for a mid-course correction to its fuel cost recovery factors. At page 6, the order states in pertinent part:

> [w]hen a utility becomes aware that its projected fuel revenues applicable to a given six-month recovery period will result in an over- or under-recovery in excess of 10 percent of its projected fuel costs for the period, the utility shall

so advise the Commission thorough a filing promptly made (emphasis added)

When the Commission moved to annual, calendar year fuel cost recovery factors, the Commission expressly adopted the mid-course correction guidelines set forth in Order No. 13694. See Order No. PSC-98-0691-FOF-PU, issued May 19, 1998. These guidelines do not refer to an actual over- or under-recovery during a historical period, such as the 2000 period in this case. Although the Commission has not expressly addressed the question, it is arguable that these guidelines were not intended to allow an historical period under-recovery to be collected through a mid-course correction. The Commission did allow Florida Power to recover it 1999 under-recovery as part of its mid-course correction in 2000. See Order No. PSC-00-1081-PCO-EI, issued June 5, 2000.

For the reasons set forth below, staff believes the Commission should authorize Florida Power in this instance to collect its 2000 under-recovery through this mid-course correction.

First, unlike the estimated 2001 under-recovery amount, Florida Power's $29.4 million 2000 under-recovery represents the difference between actual costs incurred and revenues received. Although unaudited, staff believes these actual fuel revenues and costs from 2000 have a higher degree of certainty than the projected fuel revenues and costs for 2001. Staff will commence an audit of FPL's 2000 fuel revenues and costs shortly. The Commission can address any audit findings which result in a dollar adjustment to the fuel clause in the November 20-21, 2001 hearing scheduled for this docket. Second, recovery of the $29.4 million under-recovery commencing in April 2001, instead of January 2002, would be consistent with the basic principle of ratemaking which seeks to match the incurrence of costs with their cost recovery. If Florida Power had not filed a petition for approval of a mid-course correction, Florida Power would have collected the $29.4 million under-recovery plus interest in 2002.

ISSUE 2: Should the Commission approve a mid-course correction to Florida Power Corporation's (Florida Power) authorized fuel and purchased power cost recovery factors to collect its estimated $73.0 million under-recovery in 2001?

RECOMMENDATION: Yes. The Commission should approve Florida Power's amended petition for a mid-course correction to collect its estimated $73.0 million under-recovery during 2001. This approval would mitigate the rate impact on Florida Power's retail ratepayers of Florida Power collecting this amount during 2002. Any over-recovery that Florida Power may collect due to the proposed fuel cost recovery factors will be refunded to Florida Power's ratepayers with interest. (BOHRMANN, E. DRAPER)

STAFF ANALYSIS: Based on updated projections for 2001, Florida Power estimates an under-recovery of fuel and purchased power costs of $73.0 million for 2001. Florida Power requests a change in its fuel cost recovery factors to collect its estimated 2001 under-recovery amount in order to mitigate the rate impact on its retail ratepayers during 2002.

Florida Power asserts on Page 2 of its petition that the expected under-recovery well exceeds 10% of the Company's projected fuel and purchased power cost for the period. Staff disagrees. Staff calculated the underrecovery percentage for Florida Power's 2001 under-recovery by dividing the utility's anticipated 2001 underrecovery ($73.0 million) by Florida Power's original 2001 cost projections, which were $920.2 million. This yields an underrecovery of 7.9 percent, 2.1 percent below the 10 percent guideline. Florida Power included the 2000 underrecovery as part of its calculation of the underrecovery percentage. Thus, Florida Power calculated the mid-course percentage change in costs by dividing $102.4 million (the combination of the 2000 underrecovery and the projected 2001 underrecovery amounts) by $920.2, yielding an under-recovery of 11.1 percent.

Although staff's calculations show an underrecovery of less than 10% for 2001, the mid-course correction procedures in Order No. 13694 set 10% as the trigger for notification of the over or underrecovery to the Commission not as a threshold for receiving a mid-course correction. Staff notes that allowing recovery of a less than 10% underrecovery in this case is consistent with the principle of matching the timing of cost recovery to the timing of the costs incurred.

Review Process

In its analysis of Florida Power's petition for a mid-course correction, staff examined whether the assumptions (i.e., fuel prices, retail energy sales, generation mix, and system efficiency) that Florida Power used to support its re-projected fuel costs appear reasonable. This review process is consistent with staff's past recommendations on mid-course corrections. Staff will continue to conduct discovery in this docket and raise any issues concerning Florida Power's fuel and purchased power costs at the November 20-21, 2001, hearing scheduled for this docket or at such other time as is appropriate.

Florida Power uses these updated assumptions to develop future cost and revenue estimates. During the scheduled November 20-21, 2001 hearing in this docket, the Commission will compare these estimates to actual data. The Commission will then apply the difference to next year's fuel cost recovery factors through its normal true-up process. Any over-recovery that FPL collects due to the proposed fuel cost recovery factors will be refunded to FPL's ratepayers with interest.

Florida Power's Reasons for Mid-Course Correction

Florida Power states in its amended petition for a mid-course correction the estimated $73.0 million under-recovery amount is primarily due to higher natural gas prices, and to a lesser extent, higher oil prices. These market conditions are described at length in staff's February 22, 2001, recommendation regarding FPL's February 2, 2001, petition for a mid-course correction filed in this docket.

These higher fuel prices, in turn, placed upward pressure on purchased power and generation costs. These prices were originally projected and applied in Karl H. Wieland's direct testimony, prefiled September 21, 2000, in Docket No. 000001-EI. Attachment A compares Florida Power's forecasts of its average 2001 prices for natural gas, residual oil, distillate oil, coal, nuclear energy, and power purchased and sold as filed September 21, 2000, in Docket No. 000001-EI and February 8, 2001 in its petition for mid-course correction in this docket.

Florida Power is minimizing its use of natural gas by using the "fuel-switching" capabilities of several generating units to

burn oil, instead of natural gas. Excluding its nuclear units, Florida Power estimates that over 40 percent of its generation capacity can switch between oil and natural gas. Based on Florida Power's assumptions, staff estimates that Florida Power may reduce its total fuel costs by approximately $25 million in 2001 through its fuel-switching capabilities.

Reasonableness of Florida Power's Assumptions

Staff compared the data and assumptions that Florida Power relied upon to support its September 21, 2000, filing in Docket No. 000001-EI and its February 9, 2001, filing in this docket. One of Florida Power's assumptions did not change -- retail energy sales remained the same. However, three sets of Florida Power's assumptions did change: fuel price forecast; system efficiency; and unit dispatch.

Table 2 in Attachment A compares Florida Power's revised forecast of natural gas commodity prices with the futures prices that existed on the New York Mercantile Exchange (NYMEX) at the close of trading on February 8, 2001, (i.e., the day Florida Power originally filed its mid-course correction petition) for the period March, 2001 through December 2001. Staff also conducted the same comparison for distillate oil as Table 3 in Attachment A illustrates. In addition, staff compared Florida Power's 2001 residual oil price forecast to the 2001 residual oil price estimate listed in the U.S. Energy Information Administration's (EIA) Short Term Energy Outlook for February 2001. Staff used EIA's estimate because NYMEX has not created a futures market for residual oil. Florida Power's 2001 residual oil price estimate is $3.35/MMBtu compared with EIA's residual oil price estimate of $4.03/MMBtu.

Staff compared Florida Power's natural gas price forecast to NYMEX futures prices as a test for reasonableness. System costs calculated based on Florida Power's natural gas price forecast are approximately $30.1 million less than the costs based on the NYMEX futures prices for January 10, 2001 (i.e., near the maximum price for natural gas on NYMEX during the past three months). Similarly, the system costs calculated based on Florida Power's natural gas price forecast are approximately $4.3 million less than the costs based on using the most up-to-date NYMEX futures price available (closing price on February 21, 2001).

Based on these comparisons, staff believes Florida Power's natural gas commodity, residual oil, and distillate oil price

forecasts are reasonable for purposes of the proposed Florida Power mid-course correction.

Regarding Florida Power's efficiency assumption, Table 4 in Attachment A shows that Florida Power's forecasted system efficiency fell approximately 0.8 percent to 10,189 Btu/kwh. Staff believes this reduction in system efficiency does not have a material impact on Florida Power's estimated 2001 under-recovery.

Table 5 in Attachment A shows the changes in Florida Power's forecast of net generation by fuel type for the filings Florida Power made on September 21, 2000, and February 8, 2001. As discussed previously, Florida Power has several generating units on its system that can burn oil or natural gas, whichever fuel is less expensive at any given time. Also, as natural gas prices become increasingly more expensive relative to oil, more oil-fired generating units are economically dispatched ahead of natural gas-fired generating units. Based on the expected fuel prices for the remainder of 2001, Florida Power's forecast of net generation by fuel type is reasonable for purposes of the proposed Florida Power mid-course correction.

Impact of Mid-Course Correction on Florida Power's Ratepayers

Florida Power has proposed to collect its 2000 under-recovery (see Issue 1) and its estimated 2001 under-recovery in its proposed fuel cost recovery factors. Florida Power's proposed fuel cost recovery factors per delivery voltage are shown on Attachment B, page 1 of 2. If the Commission approves Florida Power's petition for a mid-course correction, the typical residential ratepayer's monthly bill for 1,000 kwh would increase by $3.71 (4.14 percent) to $93.41 for the remainder of 2001(Refer to Attachment B, page 2 of 2).

If the Commission does not approve Florida Power's proposed mid-course correction, Florida Power estimates that its typical residential bill (1,000 kwh/month) for 2002 would rise $3.53 from current levels to $93.23. If the Commission does approve Florida Power's proposed mid-course correction, Florida Power estimates that its typical residential bill for 2002 would only rise $0.71 from current levels to $90.41.

The amount of interest that Florida Power's ratepayers would pay on its estimated under-recovery amount may decrease. By Order No. 9273, in Docket No. 74680-CI, issued March 7, 1980, Florida Power's ratepayers pay interest on any under-recovery at the commercial paper rate. The commercial paper rate that Florida

Power used to calculate the interest on its December 31, 2000, under-recovery balance was 6.58 percent. According to Florida Power, its ratepayers may avoid approximately $5.7 million in interest payments through 2002 if the Commission authorizes Florida Power to collect its estimated under-recovery in 2001 instead of 2002.

Summary

Staff recommends approval of Florida Power's petition for mid-course correction for four reasons. First, the assumptions that Florida Power has used to determine its estimated under-recovery amount appear reasonable. Second, the mid-course correction may mitigate the rate impact of collecting its estimated under-recovery during 2002. Third, the mid-course correction may reduce the interest expense that Florida Power's ratepayers would pay on its estimated under-recovery balance. Fourth, the mid-course correction would allow Florida Power to recover the additional fuel and purchased power costs that Florida Power is likely to incur in a timely manner.

ISSUE 3: If the Commission approves Florida Power's amended petition for a mid-course correction to Florida Power's fuel cost recovery factors, what should be the effective date of the mid-course correction?

RECOMMENDATION: If the Commission does not approve staff's recommendation in Issues 1 and 2, this issue is moot. If the Commission approves staff's recommendations in Issue 1, Issue 2, or both, the effective date should be March 29, 2001. (BOHRMANN, E. DRAPER, C. KEATING)

STAFF ANALYSIS: Florida Power has requested an effective date beginning with the first billing cycle in April 2001, which falls on March 29, 2001. Although this effective date is 6 days less than the customary 30-day notice requirement for rate increases, staff believes such treatment is reasonable. Staff believes that due to the magnitude of the under-recovery, it is important that the new factors be implemented as soon as possible. The March 29, 2001, effective date will also insure that all customers are billed under the new rates for the same amount of time.

The Commission has typically not required a 30-day notice period prior to implementing new fuel cost recovery factors after a mid-course correction. See, e.g., Order No. PSC-96-0907-FOF-EI, issued July 15, 1996; Order No. PSC-96-0908-FOF-EI, issued July 15, 1996; Order No. PSC-97-0021-FOF-EI, issued January 6, 1997. Most recently, at the February 6, 2001, Agenda Conference, the Commission approved mid-course corrections for each investor-owned natural gas utility to become effective on the date of the Commission vote.

The Commission did require a 30-day notice in Order No. PSC-00-1081-PCO-EI, issued June 5, 2000, which granted FPL's, Florida Power's, and TECO's petitions for mid-course corrections last year. The Commission found that providing customers with the full 30 days' notice in this instance was appropriate. The Commission delayed the implementation of the new factors for approximately two weeks to allow customers the opportunity to adjust their usage in light of the new factors. In this instance, as noted, the effective date recommended falls short of the 30-day notice period by only 6 days.

Due to the magnitude of the increase staff believes that Florida Power should notify its ratepayers in writing of the Commission approved fuel cost recovery factors. Florida Power should mail the notice to its customers as soon as possible after

the Commission's vote. Such information should include, but not be limited to: the total dollar amount of the mid-course correction, the impact on the typical ratepayer's monthly bill, and the effective date of the proposed fuel cost recovery factors.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: No. (C. KEATING)

STAFF ANALYSIS: The Fuel and Purchased Power Cost Recovery clause is an on-going docket and should remain open.

Table 1: Change in Florida Power's 2001 Delivered Fuel Price Forecast ($/MMBtu, except for power purchased and sold)			
	As-Filed (09/21/00)	As-Filed (02/8/01)	Change
Natural Gas	$4.60	$6.10	32.61%
Residual Oil	$3.55	$3.35	-5.63%
Distillate Oil	$5.73	$5.92	3.32%
Coal	$1.83	$1.90	3.83%
Nuclear	$0.33	$0.33	0.00%
Purchased Power ($/MWH)	$21.00	$22.95	9.20%
Power Sold ($/MWH)	$43.79	$50.04	14.27%

Table 2: Florida Power Monthly Natural Gas Commodity Price Compared to NYMEX ($/MMBtu)				
Month in 2001	Florida Power 02/08/01 Petition Natural Gas Price	NYMEX 02/08/01 Natural Gas Price	Difference	Percent Difference
March	$7.27	$6.16	$1.11	18.02%
April	$5.37	$5.86	($0.49)	-8.36%
May	$4.95	$5.64	($0.69)	-12.23%
June	$4.97	$5.62	($0.65)	-11.57%
July	$4.97	$5.63	($0.66)	-11.72%
August	$4.97	$5.64	($0.67)	-11.88%
September	$5.00	$5.59	($0.59)	-10.55%
October	$5.44	$5.60	($0.16)	-2.86%
November	$5.34	$5.67	($0.33)	-5.82%
December	$5.37	$5.76	($0.39)	-6.77%

Table 3: Florida Power Monthly Distillate Oil Price Compared to NYMEX				
Month in 2001	Florida Power's 02/08/01 Petition Distillate Oil Price	NYMEX 02/08/01 Distillate Oil Price	Difference	Percent Difference
March	$5.68	$6.06	($0.38)	-6.27%
April	$5.71	$5.85	($0.14)	-2.39%
May	$5.71	$5.67	$0.04	0.71%
June	$5.71	$5.56	$0.15	2.70%
July	$5.73	$5.51	$0.22	3.99%
August	$5.72	$5.51	$0.21	3.81%
September	$5.73	$5.54	$0.19	3.43%
October	$6.21	$5.57	$0.64	11.49%
November	$6.21	$5.60	$0.61	10.89%
December	$6.20	$5.63	$0.57	10.12%

Table 4: Florida Power's Forecasts of System Efficiency (Btu/kwh)		
	As-filed (09/21/00)	As-Filed (02/08/01)
Residual Oil	10,232	10,231
Distillate Oil	14,268	13,241
Coal	9,534	9,570
Natural Gas	10,158	10,730
Nuclear	10,186	10,160
Weighted Average	10,108	10,189

Table 5: Florida Power's System Net Generation (GWH) by Fuel Type			
	As-Filed 09/21/2000	As-Filed 02/08/2001	% Change
Residual Oil	5,618	6,726	19.72%
Distillate Oil	1,838	2,509	36.51%
Coal	15,766	15,209	-3.53%
Natural Gas	4,695	3,047	-35.10%
Nuclear	5,971	5,754	-3.63%
Total	33,888	33,244	-1.90%

FLORIDA POWER CORPORATION

FUEL ADJUSTMENT FACTORS BY DELIVERY VOLTAGE LEVEL

APRIL 2001 - DECEMBER 2001

Group	Delivery Voltage Level	Fuel Cost Factors (cents/kWh)		
			Time Of Use	
		Standard	On-Peak	Off-Peak
A.	Transmission	2.828	3.872	2.359
B.	Distribution Primary	2.856	3.910	2.382
C.	Distribution Secondary	2.885	3.950	2.406
D.	Lighting Service	2.695		

RESIDENTIAL FUEL FACTORS FOR THE PERIOD: April 2001 - December 2001

NOTE: This schedule reflects a midcourse correction in the fuel factors for Florida Power & Light, Florida Power Corporation, and Tampa Electric Company effective April 2001.

02/08/01

			Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2) Marianna	Florida Public Utilities Co. (2) Fernandina Beach
Present	(cents per kwh):	January 2001 - March 2001	2.931	2 524	2.509	1.842	3.859	3.464
Proposed	(cents per kwh):	April 2001 - December 2001	**3.667**	**2.885**	**2.830**	**1.842**	**3.859**	**3.464**
		Increase/Decrease:	0.736	0.361	0.321	0.000	0.000	0.000

TOTAL COST FOR 1,000 KILOWATT HOURS - RESIDENTIAL SERVICE

PRESENT: January 2001 - March 2001	Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2) Marianna	Florida Public Utilities Co. (2) Fernandina Beach
Base Rate	43.26	49.05	51.92	42.20	20.43	19.20
Fuel	29.31	25.24	25.09	18.42	38.59	34 64
Energy Conservation	1.81	2 09	1.14	0 53	0.56	0.38
Environmental Cost Recovery	0.08	N/A	1.65	0.96	N/A	N/A
Capacity Recovery	5.27	11.08	2 56	2.08	N/A	N/A
Gross Receipts Tax (1)	0.82	2.24	2.11	0 66	1 53	0.56
Total	**$80.55**	**$89.70**	**$84.47**	**$64.85**	**$61.11**	**$54.78**

PROPOSED: April 2001 - December 2001	Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2) Marianna	Florida Public Utilities Co. (2) Fernandina Beach
Base Rate	43.26	49.05	51.92	42.20	20.43	19.20
Fuel	36.67	28.85	28.30	18.42	38.59	34 64
Energy Conservation	1.81	2.09	1.14	0.53	0.56	0.38
Environmental Cost Recovery	0.08	N/A	1.65	0.96	N/A	N/A
Capacity Recovery	5.27	11.08	2.56	2.08	N/A	N/A
Gross Receipts Tax (1)	0.89	2.34	2.19	0.66	1.53	0.56
Total	**$87.98**	**$93.41**	**$87.76**	**$64.85**	**$61.11**	**$54.78**

PROPOSED INCREASE / (DECREASE)	Florida Power & Light	Florida Power Corporation	Tampa Electric Company	Gulf Power Company	Florida Public Utilities Co. (2) Marianna	Florida Public Utilities Co. (2) Fernandina Beach
Base Rate	0.00	0.00	0.00	0.00	0 00	0.00
Fuel	7.36	3.61	3.21	0.00	0.00	0.00
Energy Conservation	0.00	0.00	0.00	0.00	0.00	0.00
Environmental Cost Recovery	0.00	0.00	0.00	0.00	0.00	0.00
Capacity Recovery	0.00	0 00	0.00	0.00	0.00	0 00
Gross Receipts Tax (1)	0.07	0.10	0.08	0.00	0.00	0 00
Total	$7.43	$3.71	$3.29	$0.00	$0.00	$0.00

(1) Additional gross receipts tax is 1% for Gulf, FPL and FPUC-Fernandina Beach FPC, TECO and FPUC-Marianna have removed all GRT from their rates, and thus entire 2.5% is shown separately. (2) Fuel costs include purchased power demand costs of 1.655 for Marianna and 1.589 cents/KWH for Fernandina allocated to the residential class.

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