State of Florida

Public Service Commission

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

DATE: May 25, 2001
TO: All Parties of Record
FROM: Division of Safety and Electric Reliability (Bohrmann) TB JDJ
Division of Legal Services (C. Keating) WCK RVE
RE: Docket No. 010001-EI - Fuel and Purchased Power Cost Recovery Clause and Generation Performance Incentive Factor

Staff Workshop - June 27, 2001 - Length of Fuel Clause Recovery Period

By Order No. PSC-98-0691-FOF-PU ("Order No. 98-0691"), issued May 19, 1998, in Docket No. 980269-PU, the Commission established an annual, calendar-year recovery period for cost recovery clauses (i.e., fuel, capacity, generation performance incentive factor, environmental, energy conservation, and purchased gas adjustment) for all investor-owned electric and gas utilities within its jurisdiction. Prior to Order No. 98-0691, the Commission approved seasonal, six-month fuel cost recovery factors ("factors") that commenced in April and October of each year for each investor-owned electric utility ("utility") within its jurisdiction. This procedure was established by Order No. 9273, issued March 6, 1980, in Docket No. 74680-CI.

At the March 6, 2001, and March 13, 2001, agenda conferences, several Commissioners expressed concern as to whether the reasons for implementing an annual, calendar-year recovery period for the fuel and purchased power cost recovery clause ("fuel clause") are still valid. In response to the Commissioners' concerns, staff has scheduled a staff workshop for June 27, 2001. Notice of the time and location of the staff workshop has been issued as of the date of this memorandum. Staff has designed two fuel cost recovery factor revision schedule alternatives, attached hereto, for discussion during the staff workshop. **Neither alternative contemplates any change in the length or timing of the recovery period in any other cost recovery clause.**

Staff invites each party to submit any alternative proposals prior to the staff workshop. Staff also encourages each party to submit written comments regarding the discussion questions listed after each staff alternative. Each party who submits alternative proposals or written comments regarding staff's discussion questions should provide copies of its alternative proposal(s) and written comments to staff and all other parties by June 18, 2001. Each party may also submit post-workshop written comments by July 13, 2001.

Based on the comments received, staff plans to file a recommendation in Docket No. 010001-EI regarding changes, if any, to the fuel clause recovery period. Staff intends to seek a Commission ruling (proposed agency action) on this matter in time to allow the Commission to address any protest during the hearing scheduled in this docket for November 20-21, 2001.

If you have any questions about the staff workshop or the two alternatives set forth in the attachments to this memorandum, please contact Todd Bohrmann at (850) 413-6445 or Cochran Keating at (850) 413-6193.

TB/WCK
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ATTACHMENT 1

REVIEW OF STATUS QUO / STAFF'S ALTERNATIVES

Status Quo

In Order No. 98-0691, the Commission identified five reasons for implementing a change from a seasonal, six-month recovery period to an annual, calendar-year recovery period, beginning January 1, 1999, for each utility. First, an annual hearing for each cost recovery clause allows the Commission and the parties to use their resources more efficiently. An annual, calendar-year recovery period reduces the Commission's and the parties' administrative effort compared with a six-month recovery period. The reduced administrative effort allows the Commission and the parties more time for analysis of fuel docket issues.

Second, the Commission surmised that mid-course corrections would occur less frequently as monthly over- and under-recoveries would offset each other. However, Florida Power & Light, Florida Power, and Tampa Electric Company have recently experienced volatile fuel and purchased power prices, and have requested mid-course corrections during 2000 and 2001. Although the Commission approved these mid-course correction requests, the expedited nature of the proceedings gives the Commission and interested parties little time to review comprehensively the cost effectiveness of the utility's fuel procurement decisions.

Third, an annual, calendar-year factor for each cost recovery clause provides a more certain and stable electricity price for ratepayers' budgeting processes. When the Commission set each utility's factors based on a seasonal, six-month recovery period, ratepayers were often charged three different factors during one calendar year. When the Commission implemented the change to an annual, calendar-year recovery period, fuel prices had been relatively stable over the preceding 10-15 years. Recently, the utilities have experienced significant volatility in natural gas and oil prices, and may experience a high level of volatility in the future. However, future fuel prices may stabilize. Also, a utility's increased use of derivative instruments (i.e., futures, options, and swaps) may reduce the impact of fuel price volatility.

Fourth, interested parties can now analyze fuel cost information more easily. Previously, one extracted these data from three recovery periods to calculate fuel costs for a calendar year. Currently, an interested party only needs to extract data from one twelve-month recovery period to calculate fuel costs on a calendar year basis. Also, maintaining data on a calendar year basis is consistent with the manner in which most data are accumulated and reported to the Federal Energy Regulatory Commission, the Department of Energy, and other public agencies.

Fifth, an annual, calendar year factor has simplified Commission audits. Previously, this Commission audited each utility's fuel expenses from April through the following March. Therefore, the Commission accessed information from each utility's general ledger and electronic data processing (EDP) tapes from two calendar years to complete each year's audit. Currently, the audit period commences in January and concludes the following December. Thus, the Commission only accesses the utilities' general ledger and EDP tapes from one calendar year.

First Alternative -- Optional Six-Month Recovery Period, No Mid-Course Corrections

Under this alternative, each utility would propose its factors based on a six-month recovery period, commencing in January and July of each year. Subject to Commission approval, however, a utility could request to propose its respective factors based on a twelve-month recovery period for a minimum period of five years, commencing in January of each year. Also, the Commission would repeal parts 2 and 3 of the mid-course correction guidelines set forth by Order No. 13694, in Docket No. 840001-EI, issued September 20, 1984, for utilities who choose to remain on a 12-month recovery period.

If the Commission adopted this alternative, staff would suggest the following example as a transition schedule to the six-month recovery period.

Date	Event
09/20/01	Each utility[1] (IOU) files projection testimony to propose its six-month factors for 01/2002 - 06/2002. A utility which remains on a 12-month recovery period files projection testimony to propose its 12-month factors for 01/2002 - 12/2002.
11/20/01	Commission sets factors for 01/2002 - 06/2002 and 01/2002 - 12/2002.
02/15/01[2]	Commission staff initiates audit of each utility's 2001 fuel revenues and expenses[3].
03/04/02[2]	Each utility[1] files final true-up testimony and data for 01/2001 - 12/2001.
03/20/02[2]	Each utility[1] files actual/estimated true-up data for 01/2002 - 06/2002 and projection testimony to propose six-month factor for 07/2002 - 12/2002.
04/01/02[2]	A utility which remains on a 12-month recovery period files final true-up testimony and data for 01/2001 - 12/2001.
05/20/02[2]	Commission sets factors for 07/2002 - 12/2002.
07/19/02[2]	Commission audit staff submits audit report and workpapers on each utility's 2001 fuel revenues and expenses to Commission legal and technical staff[3].
08/23/02[2]	A utility which remains on a 12-month recovery period files actual/estimated true-up data for 01/2002 - 12/2002.
09/03/02[2]	Each utility[1] files final true-up testimony and data for 01/2002 - 06/2002.
09/23/02[2]	Each utility[1] files actual/estimated true-up data for 07/2002 - 12/2002 and projection testimony to propose six-month factors for 01/2003 - 06/2003. A utility which remains on a 12-month recovery period files projection testimony to propose 12-month factors for 01/2003 - 12/2003.
11/25/02[2]	Commission sets factors for 01/2003 - 06/2003 and 01/2003 - 12/2003.

Notes: (1) A utility could request, subject to Commission approval, to continue setting its respective factors based on a twelve-month recovery period for a minimum of five years, commencing in January of each year. (2) Date is estimated and would be set at a future date. (3) Regardless of the length of the recovery period, the Commission staff would continue to audit each utility's fuel revenues and expenses on an annual, calendar-year basis.

A six-month recovery period, commencing in January and July of each year, may provide the following benefits compared with the status quo:

- more current fuel price forecasts;
- more frequent regulatory review;
- shorter regulatory lag;
- smaller over- and under-recoveries; and
- more timely price signals

A six-month recovery period, commencing in January and July of each year, may provide the following drawbacks compared with the status quo:

- greater regulatory costs for Commission and parties;
- greater price uncertainty for customers;
- more difficult data collection and analysis; and
- more frequent price changes

Discussion Questions for First Alternative

1. How much forecast precision regarding fuel prices up to 18 months into the future can the Commission expect from a utility?

2. Has sufficient time elapsed since the Commission issued Order No. 98-0691 to gauge the success of an annual, calendar-year recovery period for the fuel cost recovery clause?

3. Are the reasons the Commission cited in Order No. 98-0691 for changing to an annual, calendar-year recovery period still valid?

4. Is the recent volatility in natural gas and oil prices an anomaly or a harbinger of future conditions?

5. What is each investor-owned electric utility doing to mitigate the impact of fuel price volatility on its ratepayers?

6. How effective has each investor-owned electric utility's efforts to mitigate the impact of fuel price volatility on its ratepayers been?

7. How would a six-month recovery period for the fuel cost recovery clause, commencing in January and July of each year, correspond to a utility's internal planning and budgeting processes?

8. Would a seasonal, six-month recovery period for the fuel cost recovery clause, commencing in April and October of each year, be more appropriate than what staff has proposed in its first alternative?

9. Assume that the Commission had remained on a seasonal, six-month recovery period, instead of approving a change to an annual, calendar-year recovery period by Order No. 98-0691. Would the last two rounds of petitions for mid-course corrections (i.e., approved in May 2000 and March 2001) for Florida Power & Light Company, Florida Power Corporation, and Tampa Electric Company have been required?

10. What criteria should the Commission use to determine whether a utility should remain on a twelve-month recovery period, instead of a six-month recovery period?

11. What additional costs would a six-month recovery period for the fuel clause, commencing in January and July of each year, impose on the Commission and the parties?

Second Alternative -- Annual Calendar-Year Recovery Period, Expedited Mid-course Correction

Under this alternative, the Commission would approve factors for each utility to collect the projected jurisdictional fuel and net transactions costs (adjusted for over- and under-recovered amounts) for the given calendar year. As an additional issue in the fuel docket, the Commission would approve minimum and maximum factors based on low band and high band forecasts of fuel prices, retail energy sales, system efficiency, and other assumptions the Commission may designate. The Commission would classify subsequent mid-course corrections during the calendar year as either within-band or outside-band. For a within-band mid-course correction (i.e., between the minimum and maximum factors, inclusive), the Commission would make a decision most expeditiously regarding the party's petition. If a party petitions for an outside-band mid-course correction (i.e., less than the minimum factor OR greater than the maximum factor), the Commission would conduct an evidentiary hearing before ruling on the party's petition.

This alternative does not contemplate any change in the notification requirements set forth at page 6 of Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI, which 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.

Changing a utility's factors through an expedited mid-course correction process may provide the following benefits compared with the status quo:

- more timely price signals for within-band changes;
- smaller over- and under-recoveries;
- shorter regulatory lag for within-band changes; and
- more efficient use of Commission's and parties' resources

Changing a utility's factors through an expedited mid-course correction process may provide the following drawbacks compared with the status quo:

- greater price uncertainty;
- less timely price signals for outside-band changes;
- longer regulatory lag for outside-band changes; and
- potential negative customer feedback.

Discussion Questions for Second Alternative

1. What impact, if any, would the adoption of staff's second alternative have on the fuel price forecasts that each utility uses to calculate its factors?

2. What additional costs will an evidentiary hearing place on the Commission and the parties if a party requests an outside-band mid-course correction?

3. If a party petitions for a within-band mid-course correction, what information should the party include in its petition?

4. When evaluating the low and high band forecasts for fuel prices, retail energy sales, and system efficiency, what standards or criteria should the Commission use when setting the minimum and maximum factors?

5. Although not an established benchmark, a utility previously deferred requesting a mid-course correction until the utility experiences a ten percent variance in actual and projected fuel revenues and costs. Given the difference between the minimum and maximum factors, would the Commission conduct an evidentiary hearing for most requests for a mid-course correction?

6. Does the Commission have the authority to approve a within-band mid-course correction administratively?

7. Does the Commission have the authority to limit the number of within-band mid-course corrections a party may request during a calendar year?