

State of Florida



Public Service Commission
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DATE: AUGUST 2, 2001

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF SAFETY AND ELECTRIC RELIABILITY (BOHRMANN) *Tb*
DIVISION OF LEGAL SERVICES (C. KEATING) *wlc* *TD* *JDS*

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

AGENDA: AUGUST 14, 2001 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\SER\WP\010001.RCM

CASE BACKGROUND

By Order No. PSC-98-0691-FOF-PU (Order No. 98-0691) in Docket No. 980269-PU issued May 19, 1998, the Commission established an annual, calendar-year recovery period for the fuel and purchased power cost recovery clause (fuel clause) for each investor-owned electric utility (utility) within its jurisdiction. Prior to Order No. 98-0691, the Commission approved seasonal, six-month fuel and purchased power cost recovery factors (factors) that commenced in April and October of each year for each utility within its jurisdiction pursuant to Order No. 9273, in Docket No. 74680-CI, issued March 7, 1980.

The Commission adopted an annual, calendar-year recovery period to meet the following five objectives:

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1. The Commission and the parties can utilize their resources more efficiently;
2. Monthly over- and under-recovery amounts would offset each other to create less frequent mid-course corrections;
3. Ratepayers can budget with more certainty when the electricity price is set for a calendar year;
4. Interested persons can analyze fuel cost information more easily; and
5. The Commission can simplify its audit of each utility's fuel costs.

At the March 6, 2001, and March 13, 2001, agenda conferences, several Commissioners expressed concern to staff and the parties whether an annual, calendar-year recovery period still meets the objectives for implementing the change made by Order No. 98-0691. In response to the Commissioners' concerns, staff held a staff workshop on June 27, 2001. Staff received answers to its pre-workshop questions from Florida Power & Light (FPL), Florida Power Corporation (Florida Power), Tampa Electric Company (Tampa Electric), Gulf Power Company (Gulf Power), Florida Public Utilities Company (FPUC), and the Florida Industrial Power Users Group (FIPUG). Staff received post-workshop comments from FPL, Florida Power, Tampa Electric, Gulf Power, and FIPUG.

Staff is presenting this recommendation to the Commission at this time, so each utility can include any changes to the recovery period length in its projection filing due September 20, 2001, in this docket.

The Commission is vested with jurisdiction over this matter through the provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, 366.06, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission change the length of the recovery period for its fuel and purchased power cost recovery clause?

RECOMMENDATION: No. In Order No. PSC-98-0691-FOF-PU, the Commission cited five objectives for making the change from a semi-annual, seasonal recovery period to an annual, calendar-year recovery period. Staff believes that an annual, calendar-year recovery period can meet the Commission's objectives as stated in Order No. PSC-98-0691-FOF-PU better than any alternative recovery period (BOHRMANN).

STAFF ANALYSIS: Each of the Commission's reasons for adopting an annual, calendar-year recovery period as stated in Order No. 98-0691 reflected a specific objective for the future. In its analysis, staff will present the parties' positions regarding whether the current recovery period length is adequate, and what alternatives, if any, each party believes should be adopted to replace the current recovery period length. Next, staff will review whether the annual, calendar-year recovery period has achieved and can be expected to achieve the Commission's objectives. Finally, staff will discuss whether any of the parties' recovery period alternatives can be expected to achieve the Commission's objectives better than the current recovery period length.

FPL supports an alternative that staff presented at the June 27, 2001, staff workshop. Essentially, each party or the Commission, on its own motion, would have the option to request by a date certain an evidentiary hearing to establish a mid-year change in a utility's factors. Florida Power, Tampa Electric, and Gulf Power have indicated that each utility is generally satisfied with the status quo. However, each utility would support a change in the recovery period length if the change provided more flexibility without mandating additional costs on the parties.

FPUC proposed in its pre-workshop comments that the Commission set a maximum factor ("cap") on an annual, calendar-year basis, commencing in January of each year. The Commission would also authorize each utility to charge an amount equal to or less than the Commission-approved maximum factor ("flex down"). FPUC stated that this proposal is consistent with Commission policy for its

purchased gas adjustment for the investor-owned natural gas utilities.

In its comments, FIPUG urges that the Commission change back to a seasonal, six-month recovery period. FIPUG states that a shorter recovery period would yield more precise fuel price forecasts and better price signals to a utility's ratepayers. FIPUG states that it was "impressed" by FPUC's proposal because the proposal allows a utility's ratepayers an opportunity to respond to price signals in a more timely manner.

The first Commission objective described in Order No. 98-0691 was to increase the efficient use of the Commission's and the parties' resources. Staff believes that an annual, calendar-year recovery period has reduced the Commission's time and effort associated with the administrative tasks of conducting two evidentiary hearings each year. However, an annual, calendar-year recovery period has increased the time available to analyze a myriad of unique, non-boilerplate issues considered in the fuel docket during the past three years. Thus, staff believes that the time and effort associated with the fuel clause has not so much been reduced as improved. Staff believes the Commission and the parties have been able to use their resources more efficiently to prepare for annual hearings in the fuel clause docket, and the prudence review of incurred fuel costs has not suffered.

The second Commission objective described in Order No. 98-0691 was that mid-course corrections would occur less frequently as monthly over- and under-recoveries would offset each other during the longer recovery period. Since Order No. 98-0691 became effective, the Commission and the parties have seen mixed results. Since January 1999, Gulf Power, both divisions of Florida Public Utilities Company, and Office of Public Counsel have not requested a mid-course correction. The Commission did not grant FIPUG's request for "mid-course protection" filed in June 2000. However, FPL, Florida Power, and Tampa Electric requested and received mid-course corrections to their respective factors in May 2000, and February 2001. Based on these results, staff believes that it is not clear whether an annual, calendar-year recovery period produces less frequent mid-course corrections.

The third Commission objective described in Order No. 98-0691 was to provide ratepayers with more certainty during their budgeting process when the electricity price is set for a calendar

year. When the Commission set each utility's factors based on a seasonal, six-month recovery period, ratepayers were charged three different factors during one calendar year. With an annual, calendar-year recovery period and no mid-course corrections, a utility's ratepayers are charged only one factor during a calendar year. However, FPL's, Florida Power's, and Tampa Electric's ratepayers have experienced two factors within the calendar years of 2000 and 2001 because the Commission granted each utility's requests for mid-course corrections in May 2000, and March 2001.

The fourth Commission objective described in Order No. 98-0691 was to allow interested persons to analyze fuel cost information more easily. Previously, an interested person extracted these data from three recovery periods to calculate fuel costs for a calendar year. Currently, an interested person only needs to extract data from one twelve-month recovery period to calculate fuel costs on a calendar year basis. Also, an annual, calendar-year recovery period allows the Commission to maintain data in a consistent manner in which most data are accumulated and reported to the Federal Energy Regulatory Commission, the Department of Energy, and other public agencies.

The fifth Commission objective described in Order No. 98-0691 was to simplify 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.

As stated previously, Florida Power, Tampa Electric, and Gulf Power are generally satisfied with the status quo. However, each utility would support a change in the recovery period length if the change provided more flexibility without mandating additional costs on the parties. After reviewing several alternatives, staff has not found an alternative to the status quo that would satisfy these utilities' two objectives.

Staff analyzed the alternative that FPL supports most extensively compared with the other alternatives. Staff determined that the mid-course correction procedures set forth in Order No. 13694, in Docket No. 840001-EI, issued September 20, 1984, already

allow a party or the Commission, on its own motion, to seek a change in a utility's factors between hearings in the fuel clause docket to refund (collect) all or part of the utility's over-recovery (under-recovery) balance prior to the end of the current recovery period. At page 6, Order No. 13694, states in pertinent part:

[A] utility's filing pursuant to No. 1 above shall also include a request for a hearing to revise the fuel adjustment factor if in its judgment such revision would not be impractical.

In any event, any party may request or the Commission may order that a hearing be held to consider a revision of the utility's fuel adjustment factor.

Hence, the alternative that FPL supports would merely re-affirm the procedures already available to each party and the Commission.

Based on staff's review of the history of mid-course corrections made subsequent to Order No. 13694, however, the Commission has not chosen to conduct evidentiary hearings on petitions for mid-course corrections. Instead, the Commission has granted or denied such petitions through informal proceedings after testing the reasonableness of actual and revised projected data supporting a utility's petition for a mid-course correction. In each instance, the Commission has recognized that a more thorough prudence review can occur at the next regularly scheduled hearing in the fuel clause docket. Thus, the Commission retains jurisdiction over the incremental (decremental) amounts collected (refunded) as a result of the mid-course correction. If any collected amounts are found after an evidentiary hearing to have been incurred imprudently, the Commission may require a utility to refund such amounts, with interest, to the utility's ratepayers. Further, the utility will refund, with interest, any projected under-recoveries that do not materialize. In addressing mid-course petitions, the Commission has also recognized that delaying implementation of the proposed factors to hold an evidentiary hearing may increase interest expense and rate shock to the utility's ratepayers.

Staff also analyzed FPUC's proposal. The Commission has authorized the investor-owned natural gas utilities to flex down from an annually-established cap for several years. This regulatory mechanism has worked well, because the Commission and the investor-owned natural gas utilities could focus on only one variable -- the price of natural gas. If the Commission adopted FPUC's proposal, the Commission and the parties would need to monitor the price, heat rate, and consumption for each fuel used by a utility on a monthly basis. As staff expressed previously, a Commission objective was to reduce the Commission's and the parties' administrative time and effort associated with the fuel clause. Staff believes that FPUC's proposal would impose considerable costs upon the Commission and the parties with little visible benefit.

Based on 2 1/2 years of experience with an annual, calendar-year recovery period, staff believes that actual results have met or exceeded the Commission's expectations for Objectives 1, 4, and 5. Staff believes that actual results have fallen short of the Commission's expectations for Objectives 2 and 3. However, staff believes that a different recovery period length can not meet the Commission's expectations for Objectives 2 and 3 better than an annual, calendar-year recovery period. Staff believes that the timing and degree of the volatility in fuel and wholesale energy prices determines the frequency of mid-course corrections and price changes.

The Commission and the parties recognized almost twenty years ago that a utility may occasionally experience periods of price volatility. At that time, the Commission implemented two procedures which allows the Commission and the parties to respond when volatile fuel and wholesale energy prices occur. First, by Order No. 13694, the Commission requires a utility to notify the Commission when the utility expects its fuel clause over-recovery or under-recovery to exceed ten percent. 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 through a filing promptly made.

Second, as described previously, each party or the Commission, on its own motion, may seek a change in a utility's factors between the Commission's regularly-scheduled hearings in the fuel clause docket when conditions warrant.

In conclusion, the Commission cited five objectives for changing from a seasonal, six-month recovery period to an annual, calendar-year recovery period in Order No. 98-0691. Staff believes that an annual, calendar-year recovery period can meet or exceed these objectives better than any alternative recovery period length.

DOCKET NO. 010001-EI
DATE: August 2, 2001

ISSUE 2: Should this docket be closed?

RECOMMENDATION: No (C. KEATING)

STAFF ANALYSIS: This docket is an on-going docket, and should remain open.