BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.	DOCKET NO. 030001-EI ORDER NO. PSC-03-0400-PCO-EI ISSUED: March 24, 2003

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

ORDER APPROVING MID-COURSE CORRECTION TO FUEL AND PURCHASED POWER COST RECOVERY FACTORS

BY THE COMMISSION:

I. CASE BACKGROUND

By Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI, this Commission required each investor-owned electric utility to notify us when its projected fuel revenues are expected to 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 we may approve on our own motion, a mid-course correction to the utility's authorized fuel and purchased power cost recovery factors ("fuel factors").

On February 21, 2003, Tampa Electric Company ("Tampa Electric") notified our staff that it anticipates the fuel factors approved for Tampa Electric by Order No. PSC-02-1761-FOF-EI, issued December 13, 2002, in Docket No. 020001-EI, will result in an under-recovery of greater than 10 percent. On February 24, 2003, Tampa Electric filed a petition for a mid-course correction to its fuel factors, effective for cycle one billings for April 2003,

until modified by subsequent Commission order. Tampa Electric requests our approval to collect $60.6 million of its projected 2003 under-recovery balance in the fuel clause effective March 31, 2003. Jurisdiction over this matter is vested in this Commission by several provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06, Florida Statutes.

II. ANALYSIS

Review Process

Consistent with our review of previous mid-course correction petitions, our analysis of Tampa Electric's petition includes an examination of whether the assumptions (i.e., fuel prices, retail energy sales, generation mix, and system efficiency) that Tampa Electric used to support its re-projected fuel costs appear reasonable. Tampa Electric uses these updated assumptions to develop future cost and revenue estimates. During the scheduled November 12-14, 2003, hearing in this docket, we will compare these estimates to actual data, then apply the difference to next year's fuel factors through the true-up process. Any over-recovery that Tampa Electric may collect through its approved fuel factors will be refunded to Tampa Electric's ratepayers with interest. We will address whether Tampa Electric has acted prudently to procure fuels reliably and cost-effectively at our November 12-14, 2003, evidentiary hearing.

Basis for Tampa Electric's Request

In its petition, Tampa Electric states that its projected 2003 under-recovery of $60.6 million is primarily due to higher projected natural gas and residual oil prices. These prices were originally projected in Joann Wehle's direct testimony and applied in Denise Jordan's direct testimony, both prefiled September 20, 2002, in Docket No. 020001-EI. Table 1 in Attachment A, which is incorporated in this Order by reference, compares Tampa Electric's forecasts of the average 2003 fuel prices as filed on September 20, 2002, in Docket No. 020001-EI, and on February 24, 2003, in its petition for mid-course correction.

Tampa Electric provides three reasons for the higher projected natural gas and oil prices for 2003: (1) a colder than expected

winter season; (2) the national and global energy markets' reaction to potential hostilities in the Middle East; and (3) the Venezuelan oil workers' strike.

Tampa Electric states that it employs several methods to mitigate the impact of higher fuel costs. First, Tampa Electric can partially mitigate natural gas price increases by increasing generation at Tampa Electric's other generating units that do not burn natural gas, to the extent available capacity exists at these units. Currently, Tampa Electric's coal-fired generation represents 79% of its total generating capacity, with the remainder of its generation coming from a mixture of natural gas-fired and oil-fired generation. The balance of Tampa Electric's resources to serve retail load is comprised of energy purchases.

Second, Tampa Electric can minimize its use of natural gas by using the fuel-switching capabilities of certain of its generating units to burn oil instead of natural gas. This capability is available in approximately nine percent of Tampa Electric's fossil fuel capacity.

Third, Tampa Electric can engage in two additional types of transactions to minimize its fuel costs. When Tampa Electric can purchase oil at prices lower than expected future prices plus storage costs, Tampa Electric often purchases oil in quantities greater than its immediate demand for electric generation. Tampa Electric then stores the excess oil for later use. We note that Tampa Electric does not recover the costs of these purchases through the fuel clause until the fuel is burned or consumed in Tampa Electric's generating units, as set forth in Order No. 6357, issued November 26, 1974, in Docket No. 74680-CI. Also, Tampa Electric states that it has entered into bilateral transactions with customized pricing mechanisms with fuel suppliers, which provide oil to Tampa Electric at market prices or lower to the benefit of Tampa Electric ratepayers.

Reasonableness of Tampa Electric's Assumptions

We compared the data and assumptions that Tampa Electric relied upon to support its September 20, 2002, projection filing and its February 24, 2003, mid-course correction filing. Three

sets of Tampa Electric's assumptions changed: fuel price forecast; system efficiency; and unit dispatch.

Table 2 in Attachment A compares Tampa Electric's revised forecast of natural gas prices with the futures prices that existed on the New York Mercantile Exchange ("NYMEX") at the close of trading on February 19, 2003, for the period March 2003 through December 2003. The data in the table indicate that Tampa Electric's natural gas price forecast ranges from two to five percent higher than the NYMEX. Based on this comparison, we find that Tampa Electric's forecast of natural gas prices is reasonable for purposes of the proposed mid-course correction.

In addition, we compared Tampa Electric's 2003 residual oil price forecast to the 2003 residual oil price estimate listed in the U.S. Energy Information Administration's ("EIA") Short Term Energy Outlook for February 2003. We used EIA's estimate because NYMEX has not created a futures market for residual oil. Tampa Electric's 2003 residual oil price estimate is $5.24/MMBtu compared with EIA's residual oil price estimate of $4.36/MMBtu. Based on this comparison, we find that Tampa Electric's residual oil price forecast is reasonable for purposes of the proposed mid-course correction.

Table 3 in Attachment A shows that Tampa Electric's forecasted system efficiency increases by approximately 3.1 percent. Tampa Electric projects improved efficiency in burning distillate oil, natural gas, and coal compared to its original heat rate projections. However, because each additional dispatched residual oil-fired unit is less efficient than its predecessors, the average heat rate for residual oil-fired generation has increased slightly. Tampa Electric's forecasted weighted average system efficiency increased from 10,594 Btu/kWh to 10,269 Btu/kWh. We find this assumption reasonable.

Table 4 in Attachment A shows the changes in Tampa Electric's forecast of net generation by fuel type for the filings Tampa Electric made on September 20, 2002, and February 24, 2003. As discussed above, Tampa Electric has two generating units (Polk Units 2 and 3) that can burn oil or natural gas, whichever fuel is less expensive at any given time. Also, as natural gas prices increase relative to oil prices, more oil-fired generating units

are economically dispatched ahead of natural gas-fired generating units. These impacts are reflected in Table 4, as Tampa Electric's projected natural gas-fired generation increased by 10.4 percent and residual oil-fired generation increased by 30.1 percent. As discussed below, Tampa Electric projects that its coal-fired generation will fall by 6.1 percent compared with its earlier projections. Tampa Electric did not provide sufficient information regarding the change in coal-fired generation for this Commission to determine whether this assumption is reasonable. Based on the expected fuel prices for the remainder of 2003, we find that Tampa Electric's forecast of net generation by natural gas and oil is reasonable for purposes of its proposed mid-course correction.

Estimated Savings/Losses Associated with Hedging

Tampa Electric indicates that it experienced $105,000 in losses related to natural gas hedging for the period August 1, 2002, through February 26, 2003, as measured on a "mark to market" basis. The portion of total gas volume hedged was 47 percent during this period. Tampa Electric states that it achieved a $9 million savings by physically hedging the price of coal during that same period, as measured on an actual (contract price) to estimated (Schedule E3) basis. Tampa Electric asserts that the level of 2003 fuel savings or losses related to its hedging activities is uncertain at this time.

Tampa Electric reports that it is taking a "slow as you go" approach to engaging in financial hedging. The utility is preparing for changes to its methods of managing price risk by developing policies and procedures. Tampa Electric further states that it has drafted a hedging plan and that the plan is now being reviewed at the committee level. The utility expects management approval of the plan in early March 2003. Tampa Electric's petition for mid-course correction does not show a change in its projection of annual incremental hedging program costs relative to the amount approved for recovery in November 2002, but it does indicate that the utility did not incur any actual incremental hedging program costs in January 2003. Instead, such costs for January 2003 appear to be deferred until December 2003, and all other months show an incremental hedging program cost of $34,583.

Early Shutdown of Tampa Electric's Gannon Station

On December 7, 1999, Tampa Electric entered into a consent decree with the Florida Department of Environmental Protection to cease operations at its Gannon Units 1, 2, and 6 and to repower Gannon Units 3-5 by December 31, 2004. As part of its 2002 Ten Year Site Plan, Tampa Electric indicated that Gannon Units 1-4 would operate until December 31, 2004, while Gannon Units 5 and 6 would shut down and be repowered by May 2003 and May 2004, respectively. Tampa Electric was relying upon its Gannon Station to provide 3,401,472 MWHs of electricity to serve its load for 2003.

According to Tampa Electric, on February 6, 2003, the utility announced to its employees its decision to shutdown its Gannon Station early. Tampa Electric anticipates that Gannon Units 1 and 2 will cease operations in mid-March, and Gannon Units 3 and 4 will cease operations by October. Tampa Electric states that its coal-fired generation is projected to decrease by approximately 867,000 MWHs as a consequence of its decision to cease operations early at Gannon Units 1 through 4. Tampa Electric is projecting to spend approximately $52/MWH on purchased power to replace the energy lost at the four Gannon units in 2003. This average cost of purchased power is approximately $30/MWH higher than Tampa Electric's average fuel cost of coal-fired generation. Thus, in its petition, Tampa Electric has requested recovery of replacement power costs of approximately $26 million (i.e., 867,000 MWH x [$52/MWH - $22/MWH]) associated with its decision to cease operations at Gannon Units 1-4 earlier than expected.

Tampa Electric has indicated that safety and reliability are the reasons for its decision to cease operations at Gannon Units 1-4 early. However, Tampa Electric has provided no specific information regarding the safety or reliability of the Gannon units if the units remain connected to Tampa Electric's grid. Accordingly, we find that the reasons for, and the cost effectiveness of, Tampa Electric's decision to cease operations early at Gannon Units 1-4 should be fully explored before we can authorize Tampa Electric to recover the $26 million in associated replacement power costs.

Further, we do not believe that a petition for mid-course correction is the appropriate mechanism to collect incremental costs associated with a decision within a utility's control. We have traditionally authorized a mid-course correction to respond timely to factors outside the utility's control, such as changes in fuel prices. As stated above, we find that the prudence of Tampa Electric's decision to cease operations early at Gannon Units 1-4 requires further exploration.

We note that Tampa Electric's decision to cease operations early at Gannon Units 1-4 may enhance its base rate earnings, because the O&M expenses associated with coal-fired generation are greater than the O&M expenses associated with natural gas-fired generation. However, the fuel cost of coal is much less than the fuel cost of natural gas. We believe that the total economic effect on both base rate earnings as well as fuel costs should be evaluated in determining the prudence of the early shutdowns of Gannon Units 1-4.

Tampa Electric's 2002 Under-Recovery

Based on actual results through December 2002, Tampa Electric states that it experienced a $28,662,327 under-recovery of fuel and purchased power costs for 2002. Tampa Electric has requested to defer collecting the entire $28.7 million under-recovery until 2004. In the absence of a mid-course correction, the true-up process in this docket provides for collecting or refunding a utility's prior year under-recovery or over-recovery balance until the following year.

In this case, however, we find that Tampa Electric should collect $26.0 million of its 2002 under-recovery as part of this mid-course correction, i.e., over the remainder of 2003. First, this action will offset the rate impact of our decision to not authorize Tampa Electric at this time to recover the $26.0 million in replacement power costs associated with the early shutdown of Gannon Units 1 through 4. Second, unlike Tampa Electric's projected 2003 under-recovery amount, Tampa Electric's 2002 under-recovery amount represents the difference between actual costs

incurred and revenues received. Although unaudited, these actual fuel revenues and costs from 2002 have a higher degree of certainty than the projected fuel revenues and costs for 2003. We note that our staff has commenced an audit of Tampa Electric's 2002 fuel revenues and costs in the normal course of this docket, and that any audit findings which compel an adjustment to these amounts may be addressed at our November 12-14, 2003, hearing. Third, recovery of Tampa Electric's 2002 under-recovery starting in April 2003, instead of starting in January 2004, is consistent with the basic principle of ratemaking which seeks to match the timing of the incurrence of costs with the timing of their recovery.

Impact of Mid-Course Correction on Tampa Electric's Ratepayers

Tampa Electric has proposed to implement its mid-course correction over the period April through December, 2003. The proposed fuel factors by Tampa Electric rate schedule are shown on Attachment B, which is incorporated in this Order by reference. Under Tampa Electric's proposal, the monthly bill for a residential ratepayer using 1,000 kWh would increase by $4.46 (5.0 percent) to $94.14.

We find that allowing recovery of those portions of Tampa Electric's 2002 under-recovery and 2003 projected under-recovery described above beginning in April 2003, provides a better price signal to customers than if the recovery of these amounts were deferred until January 2004. In addition, we find that deferring these costs could result in a more severe impact upon customer rates in January 2004. Scenarios where that could happen include the following: (1) 2003 actual costs exceed Tampa Electric's newly projected costs; or (2) 2004 costs are projected to be at or above the level of costs reflected in the current Tampa Electric fuel factors.

Further, we find that allowing recovery of these amounts beginning in April 2003 rather than January 2004 will decrease the amount of interest that Tampa Electric's ratepayers will pay on these amounts. Pursuant to Order No. 9273, issued March 7, 1980, in Docket No. 74680-CI, Tampa Electric's ratepayers pay interest on

any under-recovery at the commercial paper rate. The commercial paper rate that Tampa Electric used to calculate the interest on its 2002 under-recovery balance was 1.3 percent. According to Tampa Electric, its ratepayers will avoid $700,000 in interest payments through 2004 if we authorize Tampa Electric to collect its under-recovery in 2003 instead of 2004.

Conclusion

Consistent with our findings set forth above, we approve a mid-course correction for Tampa Electric to recover $26.0 million of its 2002 under-recovery and $34.6 million of its 2003 projected under-recovery. The fuel factors set forth in Attachment B hereto are approved as a result of this mid-course correction. Any over-recovery that Tampa Electric collects due to the implementation of these fuel factors will be refunded to Tampa Electric's ratepayers with interest. Further, we find that the prudence of Tampa Electric's decision to cease operations early at Gannon Units 1-4 should be fully explored before we can authorize Tampa Electric to recover the $26 million in associated replacement power costs.

Effective Date for Mid-Course Correction

Tampa Electric has requested an effective date for its mid-course correction beginning with its cycle 1 billings in April, 2003, which fall on March 31, 2003. Although this effective date is three days short of the customary 30-day notice requirement for rate increases, we find the proposed date to be reasonable. Due to the magnitude of the under-recovery, we believe it is important that the new factors be implemented as soon as possible to mitigate the monthly billing impact of this mid-course correction. The March 31, 2003, effective date will also insure that all customers are billed under the new rates for the same amount of time.

We have 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. We did require a

30-day notice in Order No. PSC-00-1081-PCO-EI, issued June 5, 2000, which granted Florida Power & Light Company's, Florida Power Corporation's, and Tampa Electric's petitions for mid-course corrections in 2000. In that case, we found that providing customers with the full 30 days' notice was appropriate. We 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 three days.

Tampa Electric shall notify its ratepayers in writing of the new fuel factors approved herein. Tampa Electric is required to mail this notice to its customers as soon as possible after our vote. The notice shall include, but not be limited to, the following information: the total dollar amount of the mid-course correction, the impact on the monthly bill of a residential ratepayer using 1,000 kWh, and the effective date of the new fuel factors.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Tampa Electric Company is authorized to implement a mid-course correction to its fuel and purchased power cost recovery factors as set forth in the body of this Order. It is further

ORDERED that the fuel and purchased power cost recovery factors approved herein for Tampa Electric Company shall become effective with Tampa Electric Company's cycle 1 billings for April, 2003, which occur on March 31, 2003. It is further

ORDERED that Tampa Electric Company shall provide its customers written notice of the fuel and purchased power cost recovery factors approved herein, as set forth in the body of this Order. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission this 24th day of March, 2003.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: _____
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural, or intermediate in nature, may request:

(1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

ATTACHMENT A

Table 1: Change in Tampa Electric Company's 2003 Delivered Fuel Price Forecast ($/MMBtu)			
	As-Filed (9/20/02)	As-Filed (02/24/03)	Change
Natural Gas	$5.49	$6.94	26.41%
Residual Oil	$4.99	$5.24	5.01%
Distillate Oil	$4.51	$6.67	47.89%
Coal	$1.99	$2.01	1.01%

Table 2: Tampa Electric Company's Monthly Natural Gas Commodity Price Compared to NYMEX ($/MMBtu)				
Month in 2003	Tampa Electric Company's Petition Natural Gas Price	NYMEX 02/19/03 Natural Gas Price	Difference	Percent Difference
March	$6.04	$5.91	$0.13	2.20%
April	$5.85	$5.71	$0.14	2.45%
May	$5.65	$5.50	$0.15	2.73%
June	$5.57	$5.41	$0.16	2.96%
July	$5.56	$5.39	$0.17	3.15%
August	$5.53	$5.35	$0.18	3.36%
September	$5.50	$5.31	$0.19	3.58%
October	$5.54	$5.33	$0.21	3.94%
November	$5.71	$5.48	$0.23	4.20%
December	$5.88	$5.63	$0.25	4.44%

ATTACHMENT A

Table 3: Tampa Electric Company's Forecasts of System Efficiency by Fuel Type (Btu/kwh)		
	As-filed (9/20/02)	As-Filed (02/24/03)
Residual Oil	9,450	9,566
Distillate Oil	11,571	10,308
Coal	11,118	10,919
Natural Gas	8,125	7,702
Weighted Average	10,594	10,269

Table 4: Tampa Electric Company's System Net Generation (GWH) by Fuel Type			
	As-Filed 9/20/2002	As-Filed 02/24/2003	% Change
Residual Oil	75,711	98,496	30.09%
Distillate Oil	133,389	182,347	36.70%
Coal	14,155,319	13,288,335	-6.12%
Natural Gas	3,025,944	3,340,462	10.39%
Total	17,390,363	16,909,640	-2.76%

ATTACHMENT B

Tampa Electric Company
Approved Fuel and Purchased Power Cost Recovery Factors
For the Period: April through December 2003

Group	Rate Schedule	Fuel Recovery Factor (cents/kWh)
A	RS, GS, TS	3.450
A1	SL-2, OL-1&3	3.177
B	GSD, GSLD, SBF	3.437
C	IS-1&3, SBI-1&3	3.347
A	RST, GST	
	ON-PEAK	4.385
	OFF-PEAK	2.964
B	GSDT, EV-X, GSLDT, SBFT	
	ON-PEAK	4.368
	OFF-PEAK	2.952
C	IST-1&3, SBIT-1&3	
	ON-PEAK	4.255
	OFF-PEAK	2.876