

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery
clause with generating performance incentive
factor.

DOCKET NO. 070001-EI
ORDER NO. PSC-07-0333-PAA-EI
ISSUED: April 16, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. McMURRIAN

NOTICE OF PROPOSED AGENCY ACTION
ORDER ON MIDCOURSE CORRECTIONS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

The following issues were raised last year during the 2006 fuel and purchased power cost recovery proceeding:

- (1) Issue 12: What is the appropriate methodology for calculating over- or underrecoveries of projected fuel costs, pursuant to Commission Order Nos. 13694 and PSC-98-0691-FOF-PU?, and
- (2) Issue 13: At what point in time should a utility notify the Commission that an over- or underrecovery exceeds 10% of the projected fuel costs?

Rather than consider these issues during the 2006 evidentiary proceeding, we directed staff and the parties to hold informal meetings to discuss the appropriate interpretations of the prior orders regarding mid-course corrections. Meetings were held and our staff, the investor-owned utilities, and the intervenors participated and reached agreement on the appropriate method of interpreting and applying Order Nos. 13694 and PSC-98-0691-FOF-PU, which is discussed in more detail below.

These issues were raised during the fuel hearing because of an inconsistency in interpretation of Order Nos. 13694 and PSC-98-0691-FOF-PU. Although these two issues and

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the following orders address fuel-cost recovery, in the past, the investor-owned electric utilities (IOUs) have extended their over- or underrecovery calculation procedures and reporting procedures to capacity-cost recovery.

Order No. 13694¹ states the following regarding IOUs' over/under recoveries of projected fuel costs:

For any six month fuel recovery period, no interest will be allowed for that portion of an underrecovery in excess of 10% of total jurisdictional fuel expense for that period unless the utility complies with the mid-course correction procedure. Each utility has the responsibility to request a mid-course correction to ensure that over- or underrecoveries are less than 10%. In light of certain timing considerations, a utility may choose, in lieu of requesting a hearing, to inform the Commission, the Staff, and the intervenors that a greater than ten percent over- or underrecovery is projected to occur. In that event, the Staff or an intervenor could request that a hearing be held, and the Commission could order a hearing on its own motion or in response to a Staff or intervenor request. There will be no limitation on interest expense for overrecoveries.

In order to make our position clear on mid-course corrections, we add the following:

1. When a utility becomes aware that its projected fuel revenues, applicable to a given six-month recovery period, will result in an over- or underrecovery in excess of 10% of its projected fuel costs for the period, the utility shall so advise the Commission through a filing promptly made. Failure to comply with this requirement will result in the disallowance of interest on that portion of any underrecovery in excess of 10%.
2. 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.
3. 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.

84 F.P.S.C. 9:230, 234-235.

We issued Order No. 13694 in 1984, when cost-recovery periods covered only six months. In 1998, we changed the recovery-period length to 12 months. At that time, we issued

¹ Order No. 13694, issued September 20, 1984, Docket No. 840001-EI, In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor (84 F.P.S.C. 9:230).

Order No. PSC-98-0691-FOF-PU² which contained the following regarding our mid-course correction policy:

As stated in Order No. 13694, when a utility becomes aware that its actual fuel costs are ten percent greater than or less than its projected fuel costs during a recovery period, that utility shall advise this Commission through a prompt filing. If the utility fails to advise us, we will disallow the interest on that portion of the under-recovery in excess of ten percent. The utility shall also request a hearing to adjust its fuel clause factor unless the utility believes that such an adjustment is impractical due to magnitude and/or timing of the over-recovery or under-recovery. In any event, any party may request a hearing or we may order a hearing to consider a change in the utility's fuel clause factor.

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We have jurisdiction pursuant to Sections 366.04, 366.041, and 366.05, Florida Statutes.

Analysis of Mid-course Correction Calculations

The previous mid-course correction orders discuss "costs." Order No. PSC-98-0691-FOF-PU specifies that the over- or underrecovery percent is to be a percent difference. Order No. 13694 specified that the over- or underrecovery be expressed as a percent of actual fuel costs. Equation #1 below represents the formula previously used in applying Order No. PSC-98-0691-FOF-PU to calculate mid-course corrections. Each utility has interpreted the definitions of the numerator and denominator differently.

Equation #1 – Form of the Over- or Underrecovery Percent Calculation Specified in Order No. PSC-98-0691-FOF-PU

$$\begin{aligned} \text{Over - or Under recovery Percent} &= \frac{\text{Projected Fuel Costs} - \text{Actual Fuel Costs}}{\text{Projected Fuel Costs}} * 100 \\ &= \left[1 - \frac{\text{Actual Fuel Costs}}{\text{Projected Fuel Costs}} \right] * 100 \end{aligned}$$

The IOUs recover fuel costs through revenues and incur fuel costs as expenses. Copies of the forms used for reporting revenues and expenses are found on Attachment A to this order. Schedule A-2, Calculation of True-up and Interest Provision, is the form used to report actual revenue and expenses. Schedule E-1, Fuel and Purchased Power Clause Cost Recovery Calculation, is the form used by utilities to report the estimated revenues and expenses.

² Order No. PSC-98-0691-FOF-PU, issued May 19, 1998, Docket No. 980269-PU, In re: Consideration of change in frequency and timing of hearings.

For projected and actual costs to accurately reflect over/under recoveries, the term “projected fuel costs” must mean revenues and the term “actual fuel costs” must mean expenses. We find that Equation #1’s numerator which currently is stated as “projected fuel costs minus actual fuel costs” shall include all revenues collected and all expenses incurred at the end of the current recovery period. We further find that the term “projected fuel costs” as used in the denominator, shall equal the current recovery period’s revenues. This interpretation is reflected below in Equation #2.

Equation #2 – Over- or Underrecovery Percent Calculation

$$\left(\begin{array}{l} \text{Over - or Under} \\ \text{Recovery Percent} \end{array} \right) = \frac{\text{Estimated End - of - Period Total Net True - up}}{\text{Estimated Jurisdictional Fuel Revenue Applicable - to - Period}} * 100$$

$$= \frac{\begin{array}{l} \text{Difference Between Estimated and Actual Prior - Period Net True - ups,} \\ \text{Plus Estimated Current - Period Monthly Over/Under Recoveries,} \\ \text{Plus Estimated Current - Period Interest} \end{array}}{\text{Estimated Jurisdictional Fuel Revenue Applicable - to - Period}} * 100$$

Equation #2 expresses the over- or underrecovery percent calculation using only an estimated period total and an estimated period-end balance. The total and the balance are comparable to Schedule A-2 dollar amounts. The current-period revenues, expenses, and interest in Equation #2 consist of actual dollar amounts, which become available each month, plus estimated amounts for the period’s remaining months. At any time, revised estimates may replace the remaining months’ current estimates.

The Fuel and Purchased Power Cost Recovery Docket encompasses capacity-cost recovery. Although the utilities do not file capacity-cost revenues and expenses on a monthly basis with the Commission, they recover capacity costs in the same way that they recover fuel and purchased power costs. Annual capacity-cost recovery true-up filings, estimated/actual filings, and projected-estimate filings mirror the annual Fuel and Purchased Power Cost Recovery filings made for the same purposes.

We find that the IOUs can readily identify the current-period capacity-cost recovery dollar amounts corresponding to fuel’s End-of-Period Total Net True-up and Jurisdictional Fuel Revenue Applicable-to-Period. Therefore, the use of estimated End-of-Period Total Net True-up as a percent of estimated Jurisdictional Capacity Cost Applicable-to-Period shall be the capacity-cost over- or underrecovery percent.

Conclusion

Upon consideration, we determine that to ensure consistency in the electric utilities' interpretation of Commission Order Nos. 13694 and PSC-98-0691-FOF-PU on a prospective basis commencing June 1, 2007, the appropriate method to determine whether actual fuel costs are ten percent greater than or less than projected fuel costs is to divide the estimated End-of-Period Total Net True-up by the current period's total actual and estimated Jurisdictional Fuel Revenue Applicable-to-Period.

The estimated End-of-Period Total Net True-up represents the utilities' best estimate, using the most current projections, of what the actual balance will be on Schedule A-2 – Calculation of True-up and Interest Provision, Line C11, at the end of the current period less any previous periods' true-ups for which recovery has been deferred, by order, until after the current recovery period. The current period's total actual Jurisdictional Fuel Revenue Applicable-to-Period should be consistent with the amount reported in the Period-to-Date column on Schedule A-2, Line C3, and the estimated amount of Jurisdictional Fuel Revenue Applicable-to-Period should represent the most current projection of those amounts for future months in the current period.

The above line numbers and amount titles are from the monthly Fuel and Purchased Power Cost Recovery filings, for Fuel and Purchased Power Cost Recovery. The appropriate method to determine whether actual capacity costs are ten percent greater than or less than projected capacity costs is to make a similar percent calculation using up-to-date Capacity Cost Recovery revenue and true-ups.

Timing of Notification of Over- or Underrecovery

The notification of a ten-percent estimated over- or underrecovery must include a petition for cost-recovery factor correction, or include an explanation why a mid-course correction is not practical. In determining whether a mid-course correction is practical, an IOU may consider such things as the potential correction's estimated magnitude and the correction's timing. An IOU may also consider possible offsets between fuel- and capacity-cost over/under recoveries. With or without offsets between the fuel- and capacity-cost over/under recoveries, notice of a plus-or-minus ten percent estimated over- or underrecovery for either clause is required.

Cost-recovery periods currently coincide with calendar years. A ten-percent over- or underrecovery may arise between the fuel hearing (early November) and the end of the year. After the hearing, we could not implement a correction before January. Therefore, the way to address such an over- or underrecovery would be to consider the effect on the coming year's over- or underrecovery percent. The End-of-Period Total Net True-up includes the difference between estimated and actual Prior-Period True-ups. With this inclusion, in January or February, a mid-course correction caused entirely by that prior-period difference would be possible. If between the fuel hearing and the end of the year, an IOU becomes aware of an over- or underrecovery that would cause the coming year's over- or underrecovery percent to be outside the plus-or-minus ten-percent range, it shall promptly notify the Commission.

Upon consideration, we find that any time the absolute value of the percentage calculated for over- or underrecovery either for Fuel and Purchased Power Cost Recovery or for Capacity Cost Recovery is ten percent or greater, the utility shall promptly notify the Commission.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the appropriate method to determine whether actual fuel costs are ten percent greater than or less than projected fuel costs is to divide the estimated End-of-Period Total Net True-up by the current period's total actual and estimated Jurisdictional Fuel Revenue Applicable-to-Period. It is further

ORDERED that the appropriate method to determine whether actual capacity costs are ten percent greater than or less than projected capacity costs is to make a similar percent calculation using up-to-date Capacity Cost Recovery revenue and true-ups. It is further

ORDERED that any time the absolute value of the percentage calculated for over- or underrecovery for Fuel and Purchased Power Cost Recovery or for Capacity Cost Recovery, is ten percent or greater, the utility shall promptly notify the Commission.

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket is an ongoing docket and shall remain open.

By ORDER of the Florida Public Service Commission this 16th day of April, 2007.



ANN COLE
Commission Clerk

(S E A L)

LCB

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 that is available under Section 120.57, 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 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.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 7, 2007.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

CALCULATION OF TRUE-UP AND INTEREST PROVISION

COMPANY _____

MONTH OF: _____

	CURRENT MONTH				PERIOD TO DATE			
	ACTUAL	ESTIMATED	DIFFERENCE		ACTUAL	ESTIMATED	DIFFERENCE	
			AMOUNT	%			AMOUNT	%
A. Fuel Cost & Net Power Transactions	\$	\$	\$	%	\$	\$	\$	%
1. Fuel Cost of System Net Generation								
1a. Fuel Related Transactions (Nuclear Fuel Disposal)								
2. Fuel Cost of Power Sold								
3. Fuel Cost of Purchased Power								
3a. Demand & Non-Fuel Cost of Purchased Power								
3b. Energy Payments to Qualifying Facilities								
4. Energy Cost of Economy Purchases								
5. Total Fuel & Net Power Transactions								
6. Adjustments to Fuel Costs (Detailed Below)								
7. Adjusted Total Fuel & Net Power Transactions	\$	\$	\$	%	\$	\$	\$	%
B. KWH Sales								
1. Jurisdictional Sales		KWH						
2. Non-Jurisdictional Sales								
3. Total Sales								
4. Jurisdictional Sales % of Total KWH Sales		%	%	%		%	%	%

CALCULATION OF TRUE-UP AND INTEREST PROVISION
 COMPANY _____
 MONTH OF: _____

	CURRENT MONTH				PERIOD TO DATE			
	ACTUAL	ESTIMATED	DIFFERENCE		ACTUAL	ESTIMATED	DIFFERENCE	
			AMOUNT	%			AMOUNT	%
C. True-up Calculation								
1. Jurisdictional Fuel Revenue	\$	\$	\$		\$	\$	\$	
2. Fuel Adjustment Revenues Not Applicable to Period								
2a. True-up Provision								
2b. Incentive Provision								
3. Jurisdictional Fuel Revenue Applicable to Period								
4. Adjusted Total Fuel & Net Power Transaction (Line A-7)								
5. Jurisdictional Sales % of Total KWH Sales (Line B-4)		%	%	%	N/A	N/A		
6. Jurisdictional Total Fuel & Net Power Transactions (Line C-4 x Line C-5 x *)								
7. True-up Provision for the Month Over/Under Collection (Line C-3 - Line C-6)								
8. Interest Provision for the Month								
9. True-up & Interest Provision Beginning of Month					N/A	N/A		
9a. Deferred True-up Beginning of Period					N/A	N/A		
10. True-up Collected (Refunded)					N/A	N/A		
11. End of Period - Total Net True-up (Lines C-7 through C-10)	\$	\$	\$		N/A	N/A	\$	

* Jurisdictional Loss Multiplier

CALCULATION OF TRUE-UP AND INTEREST PROVISION
 COMPANY _____
 MONTH OF: _____

	CURRENT MONTH				PERIOD TO DATE			
	ACTUAL	ESTIMATED	DIFFERENCE		ACTUAL	ESTIMATED	DIFFERENCE	
			AMOUNT	%			AMOUNT	%
D. Interest Provision								
1. Beginning True-up Amount (Lines C-9 + 9a)	\$	\$	\$		N/A	N/A	---	---
2. Ending True-up Amount Before Interest (Line C-7 + Lines C-9 + 9a + C-10)					N/A	N/A	---	---
3. Total of Beginning & Ending True-up Amount					N/A	N/A	---	---
4. Average True-up Amount (50% of Line D-3)	\$	\$	\$		N/A	N/A	---	---
5. Interest Rate - First Day Reporting Business Month		%	N/A	---	N/A	N/A	---	---
6. Interest Rate - First Day Subsequent Business Month		%	N/A	---	N/A	N/A	---	---
7. Total (Line D-5 + Line D-6)		%	N/A	---	N/A	N/A	---	---
8. Average Interest Rate (50% of Line D-7)		%	N/A	---	N/A	N/A	---	---
9. Monthly Average Interest Rate (Line D-8 / 12)		%	N/A	---	N/A	N/A	---	---
10. Interest Provision (Line D-4 x Line D-9)	\$		N/A	---	N/A	N/A	---	---

FUEL AND PURCHASED POWER
 COST RECOVERY CLAUSE CALCULATION

COMPANY _____
 ESTIMATED FOR THE PERIOD: _____

SCHEDULE E1

	(a) DOLLARS	(b) MWH	(c) ¢/KWH
1 Fuel Cost of System Net Generation (E3)			
2 Nuclear Fuel Disposal Costs (E2)			
3 Coal Car Investment			
4 Adjustments to Fuel Cost			
5 TOTAL COST OF GENERATED POWER (LINES 1 THROUGH 4)			
6 Fuel Cost of Purchased Power (Exclusive of Economy) (E7)			
7 Energy Cost of Schedule C & X Econ Purch (Broker) (E9)			
8 Energy Cost of Other Econ Purch (Non-Broker) (E9)			
9 Energy Cost of Sched E Economy Purch (E9)			
10 Capacity Cost of Sched E Economy Purchases (E2)			
11 Energy Payments to Qualifying Facilities (E8)			
12 TOTAL COST OF PURCHASED POWER (LINES 6 THROUGH 11)			
13 TOTAL AVAILABLE KWH (LINE 5 + LINE 12)			
14 Fuel Cost of Economy Sales (E6)			
15 Gain on Economy Sales (E6)			
16 Fuel Cost of Unit Power Sales (E6)			
17 Fuel Cost of Other Power Sales			
18 TOTAL FUEL COST AND GAINS OF POWER SALES			
19 Net Inadvertent Interchange			
20 TOTAL FUEL & NET POWER TRANSACTIONS (LINE 5 + 12 + 18 + 19)			
21 Net Unbilled Sales	*		
22 Company Use	•		
23 T & D Losses	*		
24 SYSTEM MWH SALES			
25 Wholesale MWH Sales			
26 Jurisdictional MWH Sales			
26a Jurisdictional Loss Multiplier			
27 Jurisdictional MWH Sales Adjusted for Line Losses			
28 TRUE-UP **			
29 TOTAL JURISDICTIONAL FUEL COST			
30 Revenue Tax Factor			
31 Fuel Factor Adjusted for Taxes			
32 GPIF**			
33 Fuel Factor Adjusted for Taxes Including GPIF			
34 FUEL FACTOR ROUNDED TO NEAREST .001 ¢/KWH			

* For Informational Purposes Only

** Calculation Based on Jurisdictional KWH Sales