



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** June 27, 2007

**TO:** Lisa Polak Edgar, Chairman  
Matthew M. Carter II, Commissioner  
Katrina J. McMurrian, Commissioner  
Nancy Argenziano, Commissioner  
Nathan A. Skop, Commissioner

**FROM:** William B. McNulty, Public Utilities Supervisor, Division of Economic Regulation

**RE:** Notices of Underrecoveries Exceeding Ten Percent of Revenues from Gulf Power Company (Fuel and Purchased Power) and Tampa Electric Company (Capacity)

**ORIGINAL**

COMMISSION  
CLERK

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RECEIVED-FPSC

*WBM*

In accordance with Order No. PSC-07-0333-PAA-EI, issued April 16, 2007, Gulf Power Company has notified the Commission of an estimated 2007 fuel-cost underrecovery exceeding ten percent of its fuel revenues. Gulf based its estimate on August 2006-to-date actual fuel revenues and expenses and updated estimates for the remainder of 2007. Gulf's estimated underrecovery is 10.9%. This percent of Gulf's 2007 fuel revenues equates to roughly \$44 million, of which \$30 million is carried over from the last-half of 2006. The 2007 underrecovery is less than \$10 million. The remainder of the estimated underrecovery is interest expense. Most of the underrecovery is attributable to more natural gas generation than is reflected in the current recovery factor, lower prices received for power sold to other energy sellers than is reflected in the current recovery factor, and natural gas hedging losses.

Gulf lists the following reasons for not requesting a mid-course revision to its fuel cost recovery factors at this time: (1) A mid-course correction would result in only a minimal amount of Gulf's estimated underrecovery being collected during the remainder of 2007, assuming rates were adjusted in September 2007, and a mid-course correction would not materially reduce the 2008 recovery factor; (2) An additional recovery-factor change would be unnecessarily disruptive to Gulf's customers; (3) Gulf does not expect its rates to increase substantially in 2008; and (4) Gulf's other cost recovery clauses may be overrecovered in 2007 and those possible overrecoveries would partially offset the estimated fuel-clause under recovery.

The Commission is scheduled to review the components of the 2008 recovery factors, including the true-up component, in the November 6-8, 2007, fuel hearing in Docket No. 070001-EI. Based on Gulf's explanation, staff agrees with Gulf that a fuel-cost recovery factor revision is unnecessary. Gulf's notice is attached.

DOCUMENT NUMBER-DATE

05153 JUN 28 5

FPSC-COMMISSION CLERK

Also in accordance with Order No. PSC-07-0333-PAA-EI, Tampa Electric Company (TECO) has notified the Commission of an estimated 2007 capacity cost underrecovery exceeding ten percent of its capacity revenues. TECO based its estimate on actual July 2006-to-date capacity revenues and expenses and updated estimates for the remainder of 2007. TECO's estimated total capacity cost underrecovery plus interest expense is \$19.7 million. The July-to-December 2006 underrecovery plus interest expense is \$2.7 million, and the actual/estimated January-to-December 2007 underrecovery is \$17.0 million. The underrecovery for the latter half of 2006 was due to kWh sales being lower than estimated. The primary causes for calendar year 2007 actual/estimated underrecovery relates to new firm purchase agreements and extensions of existing agreements.

TECO has not requested a mid-course correction to its recovery factor. Instead, it expects to collect the estimated 2007 capacity cost underrecovery in 2008 through the 2008 recovery factor's true-up component. The Commission is scheduled to review the components of the 2008 recovery factors in the November 6-8, 2007 fuel hearing in Docket No. 070001-EI. Staff agrees with TECO that a capacity cost recovery factor revision is unnecessary due to the timing of TECO's underrecovery. TECO's notice is attached.

WBM:pl

cc: Mary Bane  
Michael Cooke  
Lisa Bennett  
Tim Devlin  
Keino Young  
Pete Lester  
Gulf Power Company  
Tampa Electric Company  
Sid Matlock  
Docket No. 070001-EI

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ORIGINAL



June 15, 2007

Ms. Ann Cole, Commission Clerk  
Division of the Commission Clerk and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0850

Dear Ms. Cole:

Re: Docket No. 070001-EI

Pursuant to Commission Order No. PSC-07-0333-PAA-EI issued April 16, 2007, Gulf Power Company submits this letter, with regard to Gulf's fuel and purchased power (energy) costs, to inform the Commission, its Staff, and the other parties to this docket that a greater than ten percent under-recovery is now projected to occur for the period ending December 31, 2007. Based on actual data through May 2007, and updated estimates for June through December 2007, the Company projects an under-recovery by period end of 10.9%.

Gulf is not requesting a mid-course correction of its fuel cost recovery factors due to timing and other considerations. Pursuant to the order cited above, the following explanation is provided as to why a mid-course correction is not practical at this time. Without a mid-course adjustment to the fuel cost recovery factors, the under-recovery expected for 2007 will be addressed through the true-up component included in the fuel factors for 2008. Gulf is not requesting a mid-course correction because the timing is such that only four months of the current cost recovery cycle would likely remain by the time a change in fuel cost recovery factors could be implemented with normal notice to customers. Considering this timing and the minimal amount that could be collected during the remaining months of 2007, the January 2008 rates would be not be materially different if a mid-course correction was implemented. The Company believes that a mid-course change in the factors in September 2007 and again in January 2008 under the current circumstances would be unnecessarily disruptive to Gulf's customers. Based on current estimates, overall rates are not expected to increase substantially in January 2008 with or without a mid-course change to the fuel factors in September

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Ms. Ann Cole, Commission Clerk  
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2007. In addition, Gulf's other cost recovery clauses may potentially be over-recovered by year-end, which could partially offset the current projected fuel under-recovery.

If any additional information is needed regarding this notice, please call me at 850-444-6231.

Sincerely,

*Susan D. Ritenour*  
*bh*

bh

cc: Honorable Matthew Carter, Pre-Hearing Officer  
Lisa Bennett, Esq.  
William McNulty  
Peter Lester  
Sidney Matlock  
Parties of Record

# AUSLEY & McMULLEN

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FLORIDA PUBLIC SERVICE  
DIVISION OF  
ECONOMIC REGULATION

June 15, 2007

## HAND DELIVERED

Mr. Bill McNulty  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Ms. Lisa Bennett  
Staff Attorney  
Division of Legal Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: FPSC Docket No. 070001-EI – Fuel and Purchased Power Cost  
Recovery Clause and Generation Performance Incentive Factor

Dear Mr. McNulty and Ms. Bennett:

Commission Order No. 13694, issued in Docket No. 840001-EI on September 20, 1984 states:

When a utility becomes aware that its projected fuel revenues... will result in an over- or under-recovery in excess of 10% of its projected fuel costs for the period, the utility shall so advise the Commission through a filing promptly made. . .

Additionally, in Order No. PSC-07-033-PAA-EI, issued in Docket No. 070001-EI on April, 16, 2007 the Commission ordered that a utility must make a similar percent calculation for the capacity clause.

Tampa Electric has now determined that its projected actual/estimated capacity cost under-recovery for the current 2007 cost recovery period will be greater than the ten percent notification threshold set forth in Order No. PSC-07-0333-PAA-EI. Tampa Electric's current 2007 projected actual/estimated under-recovery is \$19.7 million as a result of new firm purchase agreements and the extension of existing agreements. This includes \$2.7 million of the company's 2006 Actual true-up under-recovery reported in the company's March 1, 2007 filing.

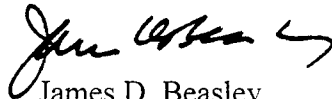
Order No. 13694 further states:

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 under recovery is projected to occur.

In view of the timing of this determination, Tampa Electric is not requesting a mid-course correction but, instead, will seek recovery of the projected 2007 under-recovery as a component of the company's 2008 capacity factors.

Sincerely,



James D. Beasley

JDB/pp