

State of Florida



Public Service Commission

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COMMISSION
CLERK

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DATE: November 19, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Franklin, Matlock, Draper, A. Roberts) *EDD GR CRAB CH*
Office of the General Counsel (Bennett, *SC*)

RE: Docket No. 100001-EI -- Fuel and purchased power cost recovery clause with generating performance incentive factor.

AGENDA: 11/30/10 -- Regular Agenda -- Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Skop

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: This recommendation should be considered following the Commission's decision regarding the inclusion, exclusion, or partial deferral of Crystal River Unit 3 replacement power costs in the 2011 fuel factors for Progress Energy Florida, Inc.

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100001.RCM.DOC

Case Background

As part of the Florida Public Service Commission's (Commission) continuing Fuel and Purchased Power Cost Recovery and Generating Performance Incentive Factor proceedings, a hearing (fuel hearing) was held on November 1 and 2, 2010, in this docket. The fuel hearing addressed the issues set forth in Order No. PSC-10-0654-PHO-EI, issued on October 29, 2010 (the Prehearing Order). During opening statements, Progress Energy Florida, Inc. (PEF or Company) indicated the Company was in the process of reforecasting its estimated fuel expenditures. Since PEF did not know the results of the forecast at the time of the fuel hearing,

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the Commission voted to approve staff's recommendation to set in place preliminary amounts for PEF's fuel cost recovery factors. These amounts were provided by PEF in Exhibit 71 as PEF's Revised Positions & Supporting Schedules. Exhibit 71 contains two sets of fuel factors: one set including Crystal River Unit 3 (CR3) replacement power costs and one set excluding CR3 replacement power costs.

The Commission also ordered PEF to file a petition for mid-course correction with its most recent fuel price forecast on or before November 10, 2010. Within PEF's mid-course correction, the Company was to include fuel factors showing CR3 replacement power costs being all included, CR3 replacement power costs being all excluded, and 50 percent of CR3 replacement power costs being included in the fuel factors.

On November 10, 2010, PEF filed its petition for a mid-course correction to its 2011 fuel and purchased power cost recovery factors. The mid-course correction includes one set of fuel factors including CR3 replacement power costs, one set of fuel factors excluding CR3 replacement power costs, and one set of fuel factors including 50 percent of CR3 replacement power costs. Whether PEF's 2011 fuel factors include, exclude, or partially include CR3 replacement power costs will be determined by the Commission in a separate decision at the November 30, 2010 Commission Conference. The Commission has jurisdiction over this subject matter pursuant to the provisions of Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1: Should the Commission approve the fuel factors in PEF's petition for mid-course correction to its 2011 fuel and purchased power cost recovery factors?

Recommendation: No. Staff recommends the Commission not approve the fuel factors in PEF's petition for mid-course correction, but instead keep in place the 2011 fuel factors approved on November 2, 2010. Staff notes the Commission will make a separate decision regarding the recovery of CR3 replacement power costs. The Commission's November vote included factors to be applied if the CR3 replacement power costs are either included or excluded. If the Commission decides to approve a partial recovery of CR3 replacement power costs in 2011, the appropriate fuel factors are displayed in Attachment A to this recommendation. (Franklin, Matlock, Draper, A. Roberts)

Staff Analysis: On September 1, 2010, PEF filed projection testimony and exhibits for its 2011 fuel factors based on projected sales and fuel costs. This projection included a natural gas price outlook as of June 14, 2010. During the deposition of PEF witness Marcia Olivier, staff was informed that PEF was performing a Fuel Operational Forecast (FOF), and changes in forecasted fuel costs may be significant enough for PEF to file a reprojection for the purposes of establishing 2011 factors. PEF provided an exhibit during the deposition that contained a high level analysis illustrating the impact of lower natural gas futures prices; this exhibit was admitted at the fuel hearing as Exhibit 65.

During the fuel hearing, at staff's request, PEF incorporated the high level analysis contained in Exhibit 65 into its Revised Positions and Supporting Schedules exhibit; this exhibit was admitted at the fuel hearing as Exhibit 71. These two exhibits essentially updated PEF's September 1, 2010 fuel testimony and filing with a more recent natural gas price outlook as of October 15, 2010. At the conclusion of the fuel hearing, on November 2, 2010, the Commission approved 2011 fuel factors based upon Exhibit 71. The fuel factors approved in Exhibit 71 were to serve as place holders until PEF could complete its FOF for November and file a petition for mid-course correction as ordered by the Commission. In approving Exhibit 71, the Commission approved two sets of fuel factors: one including all CR3 replacement power costs, and one excluding all CR3 replacement power costs. These currently approved factors are listed in Attachment A, along with a third option including 50 percent of CR3 replacement power costs in the fuel factors, which was provided by PEF on November 16, 2010 in response to the Staff Mid-Course Data Request.

On November 10, 2010, PEF filed a petition for mid-course correction, in compliance with the Commission's vote. The mid-course correction is based on PEF's November FOF, which includes an updated sales forecast for 2011 and an updated fuel price forecast, as of October 11, 2010, for all fuel types. Purchased power costs and off-system sales are also updated. The petition provides three options for fuel factors for 2011: one including all CR3 replacement power costs, one excluding all CR3 replacement power costs, and one including 50 percent of CR3 replacement power costs. PEF stated at the fuel hearing and in the mid-course petition that it disagreed with the 50 percent approach. The mid-course factors are listed in Attachment B.

As discussed above, the high level analysis used for Exhibit 71 factors essentially updated PEF's September projection filing with a more recent natural gas price outlook. In contrast, the mid-course correction includes a more thorough forecast of all fuel and purchased power costs and an updated sales (load) forecast. In other words, the mid-course correction provides a more comprehensive, and therefore more accurate, projection of fuel costs. However, the mid-course factors do not differ significantly from the Exhibit 71 fuel factors.

Based on the mid-course factors, the residential 1,000 kilowatt hour (kWh) bill would be approximately \$0.85 higher than with the currently approved fuel factors from Exhibit 71, if all CR3 replacement power costs are included. Although the mid-course correction would result in a decrease in fuel factors compared to December 2010, the mid-course would result in an increase compared to the 2011 fuel factors approved during the November fuel hearing. For that reason, PEF requests in its petition that the Commission not approve the fuel factors in the mid-course filing and continue with the fuel factors previously approved by the Commission. Below is a table that illustrates the 2011 monthly residential fuel charge per 1,000 kWh. The table displays options including, excluding, and partially including CR3 replacement power costs for Exhibit 71 fuel factors and mid-course fuel factors, along with a dollar difference between the two sets of fuel factors.

<u>2011 PEF Monthly Residential Fuel Charge per 1,000 kWh</u>				
	<u>2010</u>	<u>Exhibit 71</u>	<u>Mid-Course</u>	<u>Difference between Exhibit 71 & Mid-Course</u>
Current Charge	\$46.11			
Including CR3		\$44.61	\$45.46	\$0.85
Excluding CR3		\$40.78	\$42.45	\$1.67
50% of CR3		\$42.95	\$43.95	\$1.00

If the goal in setting fuel factors is to minimize over-recoveries or under-recoveries, i.e., true-up amounts, by basing fuel factors on the best forecast available, the mid-course fuel factors might be the appropriate choice. Although the mid-course fuel factors are more current and comprehensive than the currently approved fuel factors, staff believes the difference between the two sets is not significant enough to warrant an adjustment at this time. In addition, approval of the mid-course factors would increase fuel charges for PEF ratepayers, above those approved at the November fuel hearing, against the Company's request. Staff agrees with PEF and recommends that the Commission not approve the fuel factors in the mid-course petition, but instead keep in place the fuel factors approved on November 2, 2010, which were based on Exhibit 71. Staff notes the Commission will make a separate decision regarding the recovery of CR3 replacement power costs. The Commission's November vote included factors to be applied if the CR3 replacement power costs are either included or excluded. If the Commission decides to approve a partial recovery of CR3 replacement power costs in 2011, the appropriate fuel factors are displayed in Attachment A to this recommendation.

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In the Prehearing Order, the Commission approved stipulated Issue 16. Issue 16 is the effective date issue, and states that the new fuel and capacity charges will be effective beginning with the first billing cycle for January 2011. PEF will include a message on bills notifying customers of its request to change its fuel factors to reflect lower fuel costs. Once the fuel factors are voted on by the Commission, PEF will notify its customers through a bill insert of the Commission-approved fuel factors.

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Issue 2: Should this docket be closed?

Recommendation: No. The Fuel and Purchased Power Cost Recovery Clause docket is an on-going docket and should remain open. (Bennett)

Staff Analysis: The docket is an on-going docket and should remain open.

**Proposed Fuel Cost Recovery Factors for the Period January through December 2011
 Exhibit 71**

Including CR3 Replacement Costs

<u>Line</u>	<u>Metering Voltage</u>	<u>First Tier Factor Cents/kWh</u>	<u>Second Tier Factor Cents/kWh</u>	<u>Levelized Factors Cents/kWh</u>	<u>Time of Use</u>	
					<u>On-Peak Multiplier</u> 1.306	<u>Off-Peak Multiplier</u> 0.855
1.	Distribution Secondary	4.461	5.461	4.776	6.237	4.083
2.	Distribution Primary	—	—	4.728	6.175	4.042
3.	Transmission	—	—	4.680	6.112	4.001
4.	Lighting Service	—	—	4.486	—	—

Excluding CR3 Replacement Costs

<u>Line</u>	<u>Metering Voltage</u>	<u>First Tier Factor Cents/kWh</u>	<u>Second Tier Factor Cents/kWh</u>	<u>Levelized Factors Cents/kWh</u>	<u>Time of Use</u>	
					<u>On-Peak Multiplier</u> 1.306	<u>Off- Peak Multiplier</u> 0.855
1.	Distribution Secondary	4.078	5.078	4.393	5.737	3.756
2.	Distribution Primary	—	—	4.349	5.680	3.718
3.	Transmission	—	—	4.305	5.622	3.681
4.	Lighting Service	—	—	4.127	—	—

Including 50% CR3 Replacement Costs

<u>Line</u>	<u>Metering Voltage</u>	<u>First Tier Factor Cents/kWh</u>	<u>Second Tier Factor Cents/kWh</u>	<u>Levelized Factors Cents/kWh</u>	<u>Time of Use</u>	
					<u>On-Peak Multiplier</u> 1.306	<u>Off- Peak Multiplier</u> 0.855
1.	Distribution Secondary	4.295	5.295	4.610	6.021	3.942
2.	Distribution Primary	—	—	4.564	5.961	3.902
3.	Transmission	—	—	4.518	5.901	3.863
4.	Lighting Service	—	—	4.330	—	—

**Proposed Fuel Cost Recovery Factors for the Period January through December 2011
 Mid-course Correction**

Including CR3 Replacement Costs

Line	Metering Voltage	First Tier Factor Cents/kWh	Second Tier Factor Cents/kWh	Levelized Factors Cents/kWh	Time of Use	
					On-Peak Multiplier 1.308	Off-Peak Multiplier 0.854
1.	Distribution Secondary	4.546	5.546	4.861	6.358	4.151
2.	Distribution Primary	—	—	4.812	6.294	4.109
3.	Transmission	—	—	4.764	6.231	4.068
4.	Lighting Service	—	—	4.564	—	—

Excluding CR3 Replacement Power Costs

Line	Metering Voltage	First Tier Factor Cents/kWh	Second Tier Factor Cents/kWh	Levelized Factors Cents/kWh	Time of Use	
					On-Peak Multiplier 1.308	Off-Peak Multiplier 0.854
1.	Distribution Secondary	4.245	5.245	4.560	5.964	3.894
2.	Distribution Primary	—	—	4.514	5.904	3.855
3.	Transmission	—	—	4.469	5.845	3.817
4.	Lighting Service	—	—	4.281	—	—

Including 50% CR3 Replacement Costs

Line	Metering Voltage	First Tier Factor Cents/kWh	Second Tier Factor Cents/kWh	Levelized Factors Cents/kWh	Time of Use	
					On-Peak Multiplier 1.308	Off Peak Multiplier 0.854
1.	Distribution Secondary	4.395	5.395	4.710	6.161	4.022
2.	Distribution Primary	—	—	4.663	6.099	3.982
3.	Transmission	—	—	4.616	6.038	3.942
4.	Lighting Service	—	—	4.422	—	—