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State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

COMMISSION  
CLERK

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

**DATE:** June 2, 2011

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (D. Lee, Draper)  
Office of the General Counsel (Bennett)

**RE:** Docket No. 110001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

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 (circled 2)

**AGENDA:** 06/14/11 – Regular Agenda – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** The items for Florida Public Utilities Company should be considered in the following order: Docket No.100459-EI, then Docket No. 110041-EI, and finally Docket No. 110001-EI.

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\110001.RCM.DOC

### Case Background

On April 7, 2011, Florida Public Utilities Company (FPUC) filed a petition for approval of a mid-course revision to its purchased power cost recovery factors (fuel factors) for its Northwest Division.<sup>1</sup> Mid-course corrections are part of the fuel and purchased power cost recovery clause (fuel clause) proceeding. Mid-course corrections are used by the Commission between fuel hearings whenever costs deviate from revenues by a significant margin. Because

<sup>1</sup> FPUC's fuel factors for 2011 were set by the Commission after its November 2010 fuel hearing, by Order No. PSC-10-0734-FOF-EI, issued December 20, 2010, in Docket No. 100001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

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FPUC does not generate electricity, its fuel factors are based on the cost of the power it purchases.

FPUC purchases power from Gulf Power Company (Gulf) for FPUC's Northwest Division.<sup>2</sup> On January 25, 2011, FPUC and Gulf entered into an amendment to its Generation Services Agreement (Amendment 1).<sup>3</sup> Under the terms of the Amendment, FPUC must obtain a final order that grants approval of the Amendment no later than July 31, 2011. In its petition for approval of a mid-course correction, FPUC offers two options. The first option offered includes the effects of Amendment 1 to the Generation Services Agreement. The second option offered excludes the effects of Amendment 1.

No matter the decision the Commission makes on the mid-course correction, the Commission will review the mid-course correction as a part of the November 2011 fuel hearings. Mid-course corrections are considered preliminary procedural decisions. Any over-recoveries or under-recoveries caused by or resulting from the new fuel factors adopted by the mid-course correction may be included in the following year's fuel factors.

The Commission's jurisdiction to consider fuel clause proceedings derives from the Commission's authority to set fair and reasonable rates, found in Section 366.05, Florida Statutes.

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<sup>2</sup> FPUC's current Agreement for Generation Services with Gulf Power Company ("the Agreement") was approved by the Commission by Order No. PSC-07-0476-PAA-EI, issued June 6, 2007, in Docket No. 070108-EI.

<sup>3</sup> The Amendment 1 to the Generation Services Agreement between FPUC and Gulf is before this Commission in a separate recommendation in Docket No. 110041-EI. The Commission's decision in Docket No. 110041-EI is a Proposed Agency Action and is therefore subject to protest and subsequent hearing. The City of Marianna has intervened in Docket No. 110041-EI.

### Discussion of Issues

**Issue 1:** Should the Commission approve one of the two options offered in FPUC's petition for a mid-course revision to its purchased power cost recovery factors for its Northwest Division?

**Recommendation:** Yes. Staff recommends the Commission approve FPUC's second option (Option B) in its petition for mid-course correction. The second option excludes the effect of Amendment 1. The mid-course correction should become effective July 1, 2011. The recommended fuel factors for the second option are presented in Attachment B. (D. Lee, Draper, Bennett)

### **Staff Analysis:**

#### FPUC's Petition

FPUC states that as a result of the 2010 fuel hearings, the Commission approved FPUC's projected net fuel and purchased power cost recovery amount of \$35,363,963 to be included in the cost recovery factors for 2011. FPUC asserts that soon after the Commission issued its order, FPUC entered into Amendment 1 to its Generation Service Agreement with Gulf. FPUC projects that as a result, and assuming the Commission approves Amendment 1, FPUC will over-recover by 6.75 percent of its total system purchased power costs by the end of 2011.

FPUC states that it calculated its over-recovery in accordance with Rule 25-6.0434, Florida Administrative Code (F.A.C.). Using that rule, FPUC determined that it actually under-recovered only \$577,267 in 2010, as compared to the under-recovery of \$1,463,053 recognized by the Commission in its 2010 fuel order. This is largely driven by higher than anticipated revenues and kWh sales due to the weather, which also contributes to a significant over-recovery in January and February 2011. In addition, FPUC reports that since January 2011, it has begun paying Gulf under the provisions of Amendment 1, which provides a cost reduction of \$60,413 per month, or a total savings of approximately \$725,000 in 2011. Based on changes which have occurred since the 2010 fuel hearing and the assumption that Amendment 1 of the Agreement is approved by the Commission, FPUC believes that it will over-recover by \$2,329,328 (6.75 percent) at the end of 2011.

Pursuant to Rule 25-6.0424, F.A.C., utilities are required to give the Commission a written notice when the estimated percentage of year-end over-recovery or under-recovery exceeds the 10 percent threshold. Since FPUC's over-recovery does not exceed the 10 percent threshold set by the Commission for notice requirement, a mid-course correction is not required.

Although a mid-course correction is not required, FPUC proposes to revise its fuel factors effective July 1, 2011. FPUC states that this allows it to get the over-recovery back to customers sooner, rather than later. FPUC's request contains two options, both based on the estimated over-recovery at the end of June, 2011. Its first option includes savings in 2011 due to Amendment 1 (Option A.) FPUC's alternate excludes the Amendment 1 savings (Option B.) FPUC states that it will notify its customers of its proposed mid-course correction through a June bill insert.

Option A – with Amendment Savings

FPUC has asked for approval of Amendment 1, in Docket 110041-EI, which is also currently scheduled for the June 14, 2011 Agenda Conference. FPUC states that Amendment 1 provides a total savings of approximately \$725,000 in 2011, assuming the Commission approves the amendment. The savings are approximately 31 percent of the \$2,329,328 estimated over-recovery at the end of 2011.

To compare bills, it is common to use a residential customer's bill with 1,000 kilowatt hour (kWh) monthly usage. Table 1 compares a 1,000 kWh customer's current bill to that same customer's bill if Option A were approved.<sup>4</sup> Option A lowers the bill by \$14.53 (10 percent). Attachment A provides the current and proposed fuel factors of the various rate classes including the Time of Use and Interruptible fuel factors under Option A.<sup>5</sup>

<b>Table 1 Residential Bill Comparison (Monthly 1,000 kWh Usage) Option A – With Amendment Savings</b>				
	Current Jan – June 2011	Proposed July - Dec 2011	Difference From Current	
			\$	%
Base Rates	\$31.58	\$31.58	\$0.00	0%
Fuel Clause	\$115.53	\$101.36	(\$14.17)	-12%
Conservation Clause	\$1.15	\$1.15	\$0.00	0%
Gross Receipts Tax	\$3.80	\$3.44	(\$0.36)	-9%
<b>Total</b>	<b>\$152.06</b>	<b>\$137.53</b>	<b>-\$14.53</b>	<b>-10%</b>

Option B - without Amendment Savings

The main driver of the midcourse adjustment is higher revenues resulting from colder weather this past winter. The savings due to Amendment 1 only account for approximately 31 percent of the \$2,329,328 estimated over-recovery at the end of 2011. Even without including the savings from Amendment 1, FPUC anticipates a significant over-recovery by the end of

<sup>4</sup> Attachment C shows the rate comparison for a 1,200 kWh residential customer. Option A lowers the 1,200 kWh customer bill by \$17.44 (10 percent).

<sup>5</sup> In Docket No. 100459-EI, FPUC petitioned for authority to implement an experimental time-of-use and interruptible service tariff. These experimental tariffs were based on cost savings that would be realized if Amendment 1 were approved by the Commission. By Order No. PSC-11-0129-PCO-EI, issued February 25, 2011, in Docket No. 100459-EI, In re: Petition for authority to implement a demonstration project consisting of proposed time-of-use and interruptible rate schedules and corresponding fuel rates in the Northwest Division on an experimental basis and request for expedited treatment, by Florida Public Utilities Company. The City of Marianna was granted intervention and on March 1, 2011, filed a formal protest of the Commission's order. FPUC moved to dismiss the protest. The staff's recommendation on FPUC's motion to dismiss the protest is before the Commission on this same Commission Conference agenda.

2011. Therefore, FPUC's request includes an alternate (Option B) that excludes the savings due to Amendment 1.

Table 2 compares a current bill for a 1,000 kWh residential customer to a bill for that same customer if Option B is approved.<sup>6</sup> Option B lowers the bill by \$9.89 (7 percent). Attachment B provides the current and proposed fuel factors of the various rate classes including the Time of Use and Interruptible fuel factors under Option B.

<b>Table 2</b>				
<b>Residential Bill Comparison (Monthly 1,000 kWh Usage)</b>				
<b>Option B – Without Amendment Savings</b>				
	Current Jan – June 2011	Proposed July - Dec 2011	Difference From Current	
			\$	%
Base Rates	\$31.58	\$31.58	\$0.00	0%
Fuel Clause	\$115.53	\$105.89	(\$9.64)	-8%
Conservation Clause	\$1.15	\$1.15	\$0.00	0%
Gross Receipts Tax	\$3.80	\$3.55	(\$0.25)	-7%
<b>Total</b>	<b>\$152.06</b>	<b>\$142.17</b>	<b>-\$9.89</b>	<b>-7%</b>

Analysis of Both Options

As mentioned earlier, mid-course corrections affect only the timing of the recovery. Any over- or under-recovery that is not reflected in a change to the 2011 factors will be reflected in the 2012 factors. Accordingly, staff believes the decision to approve either option is within the Commission's discretion. Staff has evaluated the options and recommends option B for the following reasons.

Option A includes savings in 2011 due to Amendment 1. As of the writing of this recommendation, Amendment 1 has not been approved by the Commission. However, FPUC and Gulf have begun to operate under Amendment 1 and the amendment has already provided a reduction in costs beginning in January 2011. While staff's recommendation for approval of Amendment 1 is on the same Commission Conference as this recommendation, the order is expected to be issued as a Proposed Agency Action. The Commission's decision either to approve or disapprove Amendment 1 will not be final until the protest period expires. If there is a protest to the Commission's decision, the effect of Amendment 1 will not be known until after a hearing.

As noted previously, FPUC's request for approval of Amendment 1 is addressed in Docket No. 110041-EI. The City of Marianna has intervened in that docket and stated its objection to the approval of the Amendment. If the Commission does not approve the

<sup>6</sup> Attachment C shows the rate comparison for a 1,200 kWh residential customer. Option B lowers the bill by \$11.86 (7 percent).

Amendment, it may terminate. If the Amendment terminates, the cost savings FPUC has received since January of this year would be reversed based on the agreement it reached with Gulf on January 25, 2011. That would result in a higher bill next year.

If the Commission approves Option B and Amendment 1 is ultimately approved, any realized savings will be trued-up to reduce the rates for next year. Therefore, Option B gives customers rate relief for the remaining six months of this year, as well as rate stability for next year.

Additionally, FPUC's over-recovery is due mainly to the imprecise nature of forecasting. Rates are set based, in part, on estimated kWh sales. These kWh sales are affected by conditions such as weather that is difficult to forecast with precision. FPUC's data show that its over-recovery is largely driven by higher than anticipated revenues and kWh sales due to the weather. However, as of FPUC's midcourse adjustment filing, the actual data available was limited to January and February 2011. Weather and customer consumption during the remaining 10 months may reduce the effect of the savings. Subsequently, FPUC filed its monthly reports for March and April 2011 in this docket. The reports show that March and April revenues were lower than estimated due to lower than anticipated kWh sales. As a result, FPUC under-recovered by \$552,025 in March and April, or 76 percent of the \$725,000 savings related to Amendment. As a result, inclusion of the Amendment savings may lead to an under-recovery in 2011 that, in turn, could increase the rates in 2012.

Staff also notes that under Option A, the bill impact due to the amendment will appear more significant than normal. This is because the 12 months of savings (\$725,000) are spread over 6 months rather than the normal method of spreading the costs over 12 months. This contributes to the \$4.64 difference in 1,000 kWh bill comparison between Option A and Option B.

In conclusion, staff recommends Option B because it provides more stable rates, given the uncertainty surrounding the approval of the Amendment 1, and the imprecise nature of forecasting. If the Commission approves Option B, the fuel factors shown in Attachment B should become effective July 1, 2011. If the Commission approves Option A, the fuel factors shown in Attachment A should become effective July 1, 2011.

Docket No. 110001-EI

Date: June 2, 2011

**Issue 2:** Should this docket be closed?

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

**Staff Analysis:** The Fuel and Purchased Power Cost Recovery Clause is an on-going docket and should remain open.

<b>Table A-1</b>		
<b>Fuel Cost Recovery Factors by Rate Schedule (Northwest Division)</b>		
<b>Option A – With Amendment Savings</b>		
<u>Rate Schedule</u>	Current Fuel factor (c/kWh)	Proposed Fuel factor (c/kWh)
RS – First 1,000 kWh	11.553	10.136
RS – Above 1,000 kWh	12.553	11.136
GS	11.560	10.189
GSD	10.997	9.667
OL	8.619	7.602
SL	8.566	7.584
GSLD	10.586	9.321

<b>Table A-2</b>		
<b>Time of Use Fuel Cost Recovery Factors by Rate Schedule (Northwest Division)</b>		
<b>Option A – With Amendment Savings</b>		
<u>Rate Schedule</u>	Current On-Peak Fuel factor (c/kWh)	Proposed On-Peak Fuel factor (c/kWh)
RST - EXP	19.953	18.536
GST - EXP	15.560	14.189
GSDT - EXP	14.977	13.667
GSLDT - EXP	16.586	15.321
IS - EXP	8.750	7.821
<u>Rate Schedule</u>	Current Off-Peak Fuel factor (c/kWh)	Proposed Off-Peak Fuel factor (c/kWh)
RST - EXP	7.653	6.236
GST - EXP	6.560	5.189
GSDT - EXP	7.727	6.417
GSLDT - EXP	7.586	6.321
IS - EXP	10.586	9.321



<b>Table B-1</b>		
<b>Fuel Cost Recovery Factors by Rate Schedule (Northwest Division)</b>		
<b>Option B – Without Amendment Savings</b>		
<u>Rate Schedule</u>	Current Fuel factor (c/kWh)	Proposed Fuel factor (c/kWh)
RS – First 1,000 kWh	11.553	10.589
RS – Above 1,000 kWh	12.553	11.589
GS	11.560	10.622
GSD	10.997	10.067
OL	8.619	7.870
SL	8.566	7.851
GSLD	10.586	9.699

<b>Table B-2</b>		
<b>Time of Use Fuel Cost Recovery Factors by Rate Schedule (Northwest Division)</b>		
<b>Option B – Without Amendment Savings</b>		
<u>Rate Schedule</u>	Current On-Peak Fuel factor (c/kWh)	Proposed On-Peak Fuel factor (c/kWh)
RST - EXP	19.953	18.989
GST - EXP	15.560	14.622
GSDT - EXP	14.977	14.067
GSLDT - EXP	16.586	15.699
IS - EXP	8.750	8.199
	Current Off-Peak Fuel factor (c/kWh)	Proposed Off-Peak Fuel factor (c/kWh)
RST - EXP	7.653	6.689
GST - EXP	6.560	5.622
GSDT - EXP	7.727	6.817
GSLDT - EXP	7.586	6.699
IS - EXP	10.586	9.699

**Attachment C**

<b>Table C-1</b>				
<b>Residential Bill Comparison (Monthly 1,200 kWh Usage)</b>				
<b>Option A – With Amendment Savings</b>				
	Current Jan – June 2011	Proposed July - Dec 2011	Difference From Current	
			\$	%
Base Rates	\$35.50	\$35.50	\$0.00	0%
Fuel Clause	\$140.64	\$123.63	(\$17.01)	-12%
Conservation Clause	\$1.38	\$1.38	\$0.00	0%
Gross Receipts Tax	\$4.55	\$4.12	(\$0.43)	-9%
<b>Total</b>	<b>\$182.07</b>	<b>\$164.63</b>	<b>-\$17.44</b>	<b>-10%</b>

<b>Table C-2</b>				
<b>Residential Bill Comparison (Monthly 1,200 kWh Usage)</b>				
<b>Option B – Without Amendment Savings</b>				
	Current Jan – June 2011	Proposed July - Dec 2011	Difference From Current	
			\$	%
Base Rates	\$35.50	\$35.50	\$0.00	0%
Fuel Clause	\$140.64	\$129.07	(\$11.57)	-8%
Conservation Clause	\$1.38	\$1.38	\$0.00	0%
Gross Receipts Tax	\$4.55	\$4.26	(\$0.29)	-6%
<b>Total</b>	<b>\$182.07</b>	<b>\$170.21</b>	<b>-\$11.86</b>	<b>-7%</b>