State of Florida

Public Service Commission

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

DATE: February 2, 2012

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Barrett, Draper, Franklin, Lester, Watts)
Office of the General Counsel (Barrera)

RE: Docket No. 120001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

AGENDA: 02/14/12 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Balbis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\120001.RCM.DOC

Case Background

On January 25, 2012, Gulf Power Company (Gulf or the Company) filed a Petition for Mid-Course Correction to its 2012 Fuel Adjustment Factors (Petition). Gulf seeks to reduce the 2012 fuel and purchased power cost recovery factors (fuel factors) that were approved in Order No. PSC-11-0579-FOF-EI, issued December 16, 2011 in Docket No. 110001-EI (2011 Fuel Order). The fuel factors and rates from the 2011 Fuel Order were implemented in the first billing cycle in 2012. Gulf has requested that the revised fuel factors set forth in its Petition become effective with the March 2012 billing cycle. Gulf's requested reduction is due to a decrease in projected 2012 natural gas prices, and an unexpected over-recovery for actual fuel expenses in 2011.

Mid-course corrections are part of the fuel and purchased power cost recovery clause (fuel clause) proceeding; mid-course corrections are implemented between fuel hearings whenever costs deviate from revenues by a significant margin. Petitions for mid-course corrections to fuel factors are addressed in Rule 25-6.0424, Florida Administrative Code (F.A.C.)[1] Under this rule, a utility must notify the Commission whenever it expects to experience an under-recovery or over-recovery greater than 10 percent.

Commission staff will review Gulf's mid-course correction as a part of the November 2012 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 authority to set fair and reasonable rates, found in Section 366.05, Florida Statutes.

[1] Based on Rule 25-6.0424, F.A.C., the mid-course percent is the estimated End-of-Period Total Net True-up divided by the current period's total actual and estimated Jurisdictional Fuel Revenue Applicable to Period.

Discussion of Issues

Issue 1: Should the Commission approve Gulf's petition for a mid-course revision to its 2012 fuel cost recovery factors?

Recommendation: Yes. Staff recommends the Commission approve Gulf's Petition for Mid-Course Correction to its 2012 fuel factors. The revised fuel factors should become effective with the March 2012 billing cycle, which begins on March 1, 2012. The recommended fuel factors are presented in Attachment A. (Barrett, Draper, Franklin, Lester, Watts)

Staff Analysis: On September 1, 2011, Gulf filed its projection testimony and exhibits for 2012. As part of the 2012 projections, Gulf prepared estimated fuel costs for the remainder of 2011, plus forecasted fuel costs for its two primary fuels used in its generating facilities, coal and natural gas.[2]

In its Petition, Gulf states that falling natural gas prices in the latter months of 2011 yielded an unexpected over-recovery for its 2011 final true-up amount, and that higher (forecasted) natural gas prices were built into the currently authorized 2012 fuel factors[3] which were set in the 2011 Fuel Order. Those factors are based on projection of fuel costs for 2012 that was prepared using the August 1, 2011 NYMEX[4] forward curve values.

To project natural gas commodity prices for 2012, Gulf relied on NYMEX futures contract prices for each month of 2012 (the forward curve). Forward curve prices represent the price of gas for delivery in a particular month in the future. Futures contracts are actively traded and the prices can change hour-by-hour throughout a trading day. Gulf based its original 2012 projected cost for natural gas on a forward curve as of August 1, 2011. In its Petition, Gulf notes that projected gas prices have declined considerably and for its mid-course calculations, the Company used a revised forward curve of gas prices as of January 10, 2012.[5]

As shown below, staff compared the 2012 projected gas prices from Gulf's original projections to the mid-course projections based on the January 10, 2012 data, and found that the average decline in natural gas futures for this period was $1.45/MMBtu, or just over 31 percent.

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[2] Gulf also uses heavy and light oil varieties, but in very small quantities. On Schedule E-3 (Sheet 2), Gulf forecasted that over 70 percent of the megawatts hours in its generation mix for 2012 would come from coal, and over 29 percent would come from natural gas.

[3] Gulf states that its Actual over-recovery for 2011 was $13,538,423, and when compared to the amount it had estimated at the time the 2011 Fuel Order was issued ($8,441,457 under-recovery), the net over-recovery (Actual True-Up for January through December 2011) is $21,979,880. In addition to the fuel cost projections for the up-coming year (2012), the final true-up amounts for 2010 and actual/estimated true up amounts for 2011 are also components of the 2012 fuel factors.

[4] The New York Mercantile Exchange (NYMEX) is a commodities futures exchange widely used by the electric industry for pricing natural gas.

[5] Staff notes that Gulf only "re-projected" the natural gas prices built into its 2012 fuel factors; the Company's 2012 coal price projections are unchanged.

NYMEX Natural Gas Futures Contracts - $/MMBtu

	August 1, 2011	January 10, 2012	$ Difference	% difference
11-Sep	4.188			
11-Oct	4.190			
11-Nov	4.303			
11-Dec	4.505			
12-Jan	4.607			
12-Feb	4.608	2.941	-1.667	-36.18%
12-Mar	4.575	2.970	-1.605	-35.08%
12-Apr	4.512	3.042	-1.470	-32.58%
12-May	4.532	3.103	-1.429	-31.53%
12-Jun	4.565	3.158	-1.407	-30.82%
12-Jul	4.606	3.214	-1.392	-30.22%
12-Aug	4.635	3.240	-1.395	-30.10%
12-Sep	4.644	3.244	-1.400	-30.15%
12-Oct	4.682	3.281	-1.401	-29.92%
12-Nov	4.837	3.430	-1.407	-29.09%
12-Dec	5.070	3.696	-1.374	-27.10%
			Average of	Average of
			-1.450	-31.16%

In its Petition, Gulf acknowledges that its projected 2012 year end over-recovery does not exceed the 10 percent threshold set forth in Rule 25-6.0424(2), F.A.C., yet it is making this request to adjust fuel factors in order to reduce the likelihood of exceeding the 10 percent threshold later in 2012, and to allow its customers to receive the benefits of lower natural gas prices in a timely manner. Gulf's Petition included revised E-schedules to reflect the new fuel cost recovery factors for March through December 2012. The Company's proposed fuel factors are presented in Attachment A of this memorandum.

Gulf's current 1,000 kWh residential bill is $125.79 with a fuel component of $49.69. If the fuel factors from this mid-course correction (as shown in Attachment A) are approved, the 1,000 kWh residential bill will be $122.46 with a fuel component of $46.44, a decrease of $3.25 in the fuel component. The total residential 1,000 kWh bill, including Gross Receipts Taxes, will decrease by $3.33 effective March 1, 2012. If its Petition is approved, Gulf will notify its customers of the revised fuel factors in a bill insert with the March 2012 billing cycle.

Staff recommends the Commission approve Gulf's mid-course petition and the fuel factors presented in Attachment A. Staff notes that the revised fuel factors should become effective with the March 2012 billing cycle, which begins on March 1, 2012.

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. (Barrera)

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

Attachment A

Gulf - Fuel Cost Recovery Factors Adjusted For Line Losses, Effective March through December 2012			
Rate Schedules	Fuel Cost Recovery Factors cents/kwh		
	Standard	TOU (On-Peak)	TOU (Off-Peak)
RS, RSVP, GS,GSD,GSDT, GSTOU, OSIII, SBS(100-499 KW)	4.644	5.490	4.292
LP, LPT, SBS(500 - 7,499 KW)	4.569	5.400	4.222
PX, PXT,RTP, SBS(>7,499 KW)	4.531	5.355	4.187
OS I / II	4.592	N/A	N/A