

State of Florida



Public Service Commission

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DATE: June 7, 2012

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Barrett, Draper, M. 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: 06/19/12 – 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 May 29, 2012, Gulf Power Company (Gulf or the Company) filed a Petition for Mid-Course Reduction to its 2012 Fuel Cost Recovery Factors (Petition). Gulf seeks to reduce the 2012 fuel and purchased power cost recovery factors (fuel factors) for July through December, 2012 that were approved in Order No. PSC-12-0082-PCO-EI (Gulf's 1st Mid-Course Order).¹ Gulf is proposing this reduction due to a continuation of lower market prices for natural gas, and

¹ The fuel factors for 2012 were initially set by Order No. PSC-11-0579-FOF-EI, issued December 16, 2011 in Docket No. 110001-EI (2011 Fuel Order). The revised fuel factors from Gulf's 1st Mid-Course Order, issued February 24, 2012, in Docket No. 120001-EI, were implemented in the March 2012 billing cycle.

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a firm transmission arrangement for additional gas-fired generation² available to Gulf pursuant to a purchased power agreement between Gulf and Shell Energy. Based on its current fuel factors, Gulf projects a fuel cost overrecovery balance of \$58,790,205 at the end of 2012.

Mid-course corrections are part of the fuel and purchased power cost recovery clause (fuel clause) proceeding and 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.)³. Under this rule, a utility must notify the Commission whenever it expects to experience an underrecovery or overrecovery greater than 10 percent. Based on Gulf's estimated overrecovery balance (\$58,790,205) and its actual and projected revenues through December 2012 (\$529,603,641), Gulf's mid-course percent is 11.1 percent.

Mid-course corrections are considered preliminary procedural decisions. Commission staff will review Gulf's earlier and this mid-course correction as a part of the November 2012 fuel hearings. Any overrecoveries or underrecoveries 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 (F.S.).

² The firm transmission arrangement available to Gulf is for the Central Alabama combined cycle facility pursuant to a purchased power agreement between Gulf and Shell Energy. The transmission arrangement covers each of the months of June through September, 2012 and enables Gulf to reduce projected fuel costs through expected economic dispatch during the high-load summer months.

³ 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 reduction to its 2012 fuel cost recovery factors?

Recommendation: Yes. Staff recommends the Commission approve Gulf's petition for mid-course reduction to its 2012 Fuel Cost Recovery Factors. The revised fuel factors should become effective with the July 2012 billing cycle. The recommended fuel factors are presented in Attachment A. (Barrett, Draper, M. Watts)

Staff Analysis: In Gulf's 1st Mid-Course Order, the Commission reduced Gulf's fuel factors because natural gas prices had declined since the Company's original projections and fuel cost recovery factors for 2012 were set in the 2011 Fuel Order. In this Petition, the Company is requesting a second reduction in fuel factors for July through December 2012, citing two main reasons:

- Gulf has a firm transmission arrangement for capacity from June through September 2012 that enables it to purchase energy pursuant to a purchased power agreement it has with Shell Energy. The energy comes from a gas-fired combined cycle unit physically located in Alabama; and
- The Company has seen a continuation⁴ of the lower market prices for natural gas, and the Company seeks to pass along lower market prices to its customers.

At a noticed informal meeting on May 31, 2012 between Commission staff and parties, Gulf stated that low market prices for natural gas coupled with a lower-priced fuel source (the transmission and purchased power arrangement) has the Company projecting to alter its generation mix to burn less coal, particularly in the months of June through September. Without adjusting its fuel factor and using the projected values in Gulf's E-schedules, staff calculates that Gulf's overrecovery will be 11.1 percent. In order to address this overrecovery, Gulf proposes new fuel cost recovery factors for July through December 2012. The Company's proposed fuel factors are presented in Attachment A of this memorandum.

As shown in the table below, Gulf's current 1,000 kWh residential bill is \$126.53 with a fuel component of \$46.44. If the fuel factors from this mid-course correction are approved, the 1,000 kWh residential bill will be \$116.61 with a fuel component of \$36.76, a decrease of \$9.68 in the fuel component. The total residential 1,000 kWh bill, including Gross Receipts Taxes, will decrease by \$9.92 effective July 2, 2012. If its Petition is approved, Gulf will notify its customers of the revised fuel factors in a bill insert with the July 2012 billing cycle.⁵

⁴ In its late-January 2012 petition for a mid-course reduction, Gulf noted that projected natural gas prices had declined since its earlier forecast, and the Company revised its natural gas forecast using forward curve gas prices as of January 10, 2012. During an informal meeting on May 31, 2012 between Commission staff and parties, Gulf representatives stated that the Company's revised natural gas forecast uses forward curve gas prices as of March 29, 2012.

⁵ During a noticed informal meeting on May 31, 2012 between Commission staff and parties, Gulf representatives stated that the July billing cycle begins on July 2, 2012.

Gulf Power Company's Residential Bill Comparison for Monthly Usage of 1,000 kWh				
Component of Bill	Current Bill June 2012	Proposed Bill July-Dec 2012	Difference (Dollars)	Difference (Percentage)
	(\$ per 1,000 kWh)	(\$ per 1,000 kWh)		
Base Rate	\$57.65	\$57.65	--	--
Fuel Cost Recovery	\$46.44	\$36.76	(\$9.68)	(20.8%)
Capacity Cost Recovery	\$3.78	\$3.78	--	--
Energy Conversation Cost Recovery	\$2.56	\$2.56	--	--
Environmental Cost Recovery	\$12.94	\$12.94	--	--
Subtotal	\$123.37	\$113.69	(\$9.68)	(7.8%)
Gross Receipts Tax	\$3.16	\$2.92	(\$0.24)	(7.6%)
Total Bill	\$126.53	\$116.61	(\$9.92)	(7.8%)

Conclusion

Staff recommends the Commission approve Gulf's petition for a mid-course reduction to its 2012 fuel cost recovery factors. The revised fuel factors should become effective with the July 2012 billing cycle. The recommended fuel factors are presented in Attachment A.

Docket No. 120001-EI

Date: June 7, 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 Power Company (Proposed) Fuel Cost Recovery Factors Adjusted For Line Losses Effective July through December 2012				
Group	Rate Schedules	Fuel Cost Recovery Factors cents/kwh		
		Standard	TOU On-Peak)	TOU (Off-Peak)
A	RS, RSVP, GS,GSD,GSDT, GSTOU, OSIII, SBS (100-499 KW)	3.676	4.455	3.347
B	LP, LPT, SBS (500 -7,499 KW)	3.588	4.348	3.266
C	PX, PXT,RTP, SBS (>7,499 KW)	3.524	4.270	3.208
D	OS I / II	3.624	N/A	N/A