

State of Florida



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: April 2, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Barrett, Lester) *MCB*
Division of Economics (Draper) *EJD J.W.D.*
Office of the General Counsel (Brownless) *ALM*

RE: Docket No. 150001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

AGENDA: 04/16/15 – Regular Agenda – Parties May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On March 9, 2015, Florida Power & Light Company (FPL) filed a Petition for Mid-Course Correction to its 2015 Fuel Adjustment Factors (Petition). FPL seeks to reduce its 2015 fuel and purchased power cost recovery factors (fuel factors) approved in Order No. PSC-14-0701-FOF-EI¹ (2014 Fuel Order), effective in the first billing cycle in May 2015. FPL's requested reduction is primarily due to a decrease in projected 2015 natural gas prices.

Mid-course corrections are part of the fuel and purchased power cost recovery clause (fuel clause) proceeding, and such corrections are used by the Commission between fuel clause hearings whenever costs deviate from revenues by a significant margin. Petitions for mid-course corrections to fuel factors are addressed by Rule 25-6.0424, Florida Administrative Code

¹ See Order No. PSC-14-0701-FOF-EI, issued December 19, 2014, in Docket No: 140001-EI, In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor.

(F.A.C.). Under this rule, a utility must notify the Commission whenever it expects to experience an under-recovery or over-recovery greater than 10 percent. FPL originally projected an over-recovery of approximately \$218 million or 6.51 percent. However, this amount included costs and gas purchases associated with the Woodford Project. On March 25, 2015, in response to a staff data request, FPL provided revised E1 through E10 schedules without the Woodford Project which reflect an over-recovery of approximately \$219 million or 6.54 percent and modified its request based on this revised amount.²

Mid-course corrections are considered preliminary procedural decisions, and 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.

² FPL acknowledges that its initial projected over-recovery percentage of 6.51% (and its revised over-recovery percentage of 6.54%) is less than the threshold identified for notification under Rule 25-6.0424, F.A.C., but states that Section 2 of Rule 25-6.0424, F.A.C., does not preclude it from making a mid-course filing. Based on Rule 25-6.0424, F.A.C., the mid-course percentage is the estimated end-of-period total net true-up amount divided by the current period's total actual and estimated jurisdictional fuel revenue applicable to period amount.

Discussion of Issues

Issue 1: Should the Commission approve FPL's petition for a mid-course revision to its 2015 fuel cost recovery factors?

Recommendation: Yes. Staff recommends the Commission approve FPL's Petition for mid-course correction to its 2015 fuel factors. The revised fuel factors should become effective with the first billing cycle in May 2015, which falls on May 1, 2015. The recommended fuel factors are presented in Attachment A. (Barrett, Lester, Draper)

Staff Analysis: FPL's currently authorized 2015 fuel factors were set by the Commission at the October 25, 2014 fuel hearing, and established in the 2014 Fuel Order. These factors are based on FPL's projected fuel costs for 2015, plus the true-up amount from 2014.

FPL states that its original projected cost for natural gas used NYMEX³ futures contract prices for each month of 2015, based on a forward curve as of July 28, 2014. 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.

In its Petition, FPL noted that projected natural gas commodity prices have declined substantially since its original projections were developed. For its mid-course calculations, FPL used NYMEX futures contract prices based on a forward curve as of February 2, 2015. According to FPL, the decrease in 2015 projected gas prices from the original projections to the mid-course projections is about 10.5 percent.

In addition, FPL updated its 2014 true-up amount to reflect twelve months of actual data (January through December 2014). Originally, this true-up was an under-recovery of \$266,562,206. The mid-course filing shows the actual under-recovery for 2014 was \$256,473,369 or a \$10,088,837 reduction in the 2014 under-recovery amount.

In its Petition, FPL projected its end of year net true up for 2015 would be an over-recovery of \$218,050,115 (6.51%), based on actual figures for January and estimated figures for February through December 2015, as shown on Schedule E1-B. In the revised Schedule E1-B, the end of year net true up for 2015 would be an over-recovery of \$219,029,577 (6.54%), a difference of \$979,462.

For 2015, FPL projects its generation mix will be approximately 73 percent natural gas. Therefore, a decrease in the projected cost of gas for FPL can significantly decrease its fuel factors.

FPL's current 1,000 kilowatt hour (kWh) residential bill is \$100.12 per month with a fuel component of \$30.96. Applying the fuel factors from this revised mid-course correction, the residential bill for 1,000 kWh of usage will be \$97.11, a reduction of \$3.01 per month for the period May through December 2015, as shown in Attachment B.

³ The New York Mercantile Exchange (NYMEX) is a commodities futures exchange widely used by the electric industry for pricing natural gas.

FPL has requested that the revised fuel factors become effective with the first billing cycle of May 2015. This case is scheduled to be voted on at the April 16, 2015 agenda conference or 15 days before the May 2015 billing cycle begins. Typically, effective dates are set a minimum of 30 days after a Commission vote modifying charges as the result of a mid-course correction.⁴ This time limit is imposed in order not to have new rates applied to energy consumed before the effective date of the Commission's action, i.e., the date of the vote. However, the Commission has also implemented charges in less than 30 days when circumstances warrant.⁵ Further, the Florida Supreme Court has recognized that the fuel adjustment clause proceeding "is a continuous proceeding and operates to a utility's benefit by eliminating regulatory lag."⁶ Therefore, finding that there was competent, substantial evidence to support its 1984 decision⁷ with regard to 1980, 1981 and 1982 fuel costs previously allowed by the Commission, the Court affirmed the Commission's decision disallowing \$2.2 million related to managerial imprudence in the purchase of coal, finding that: "This authorization to collect fuel costs close to the time they are incurred should not be used to divest the Commission of the jurisdiction and power to review the prudence of these costs."⁸ In this instance, FPL has argued that there can be no prejudice to the customers since their total rate would be decreasing, not increasing. Therefore, customers would get the benefit of reduced rates as quickly as administratively possible. Based on the nature of the fuel adjustment clause as recognized by the Florida Supreme Court, staff agrees that the Commission has the ability to shorten the time to less than 30 days and recommends that the effective date be set at the first billing cycle in May 2015, which falls on May 1, 2015.

FPL has stated through its response to a staff data request that during the period April 1 through April 30, 2015, it intends to provide pre-vote notice of its mid-course correction request through bill inserts. Should the Commission approve its request, FPL intends to notify its customers beginning on April 17, 2015, via a bill message on all bills that lower fuel factors have been approved effective May 1, 2015, and to direct customers to its website where current and approved rates will be listed. The staff agrees that FPL's proposed notices are reasonable and should be approved.

⁴ Gulf Power Co. v. Cresce, 410 So.2d 492 (Fla. 1982); Order No. PSC-96-0907-FOF-EI, issued on July 15, 1996, in Docket No. 960001-EI, In re: Fuel and purchased power cost recovery clause and generating performance incentive factor; Order No. 96-0908-FOF-EI, issued July 15, 1996, in Docket No. 960001-EI, In re: Fuel and purchased power cost recovery clause and generating performance incentive factor ; Order No. PSC-97-0021-FOF-EI, issued on January 6, 1997, in Docket No. 970001-EI, In re: Fuel and purchased power cost recovery clause and generating performance incentive factor.

⁵ Order No. PSC-01-0963-PCO-EI, issued April 18, 2001, in Docket No. 010001-EI, In re: Fuel and purchased power cost recovery clause and generating performance incentive factor, (allowing recovery of increase in fuel price in order to decrease the carrying costs and therefore the total amount ratepayers were ultimately required to repay.); Order No. PSC-00-2383-FOF-GU, issued December 12, 2000, in Docket No. 000003-GU, In re: Purchased gas adjustment (PGA) true-up (allowing recovery of an increased gas fuel factor due to drastic increases in natural gas prices in winter of 2000-2001.)

⁶ Gulf Power Company v. Florida Public Service Commission, 487 So.2d 1036, 1038 (Fla. 1986).

⁷ Order No. 13452, issued June 22, 1984, in Docket No. 820001-EU-A, In re: Investigation of fuel cost recovery clauses of electric utilities (Gulf Power Company – Maxine Mine).

⁸ Id.

Conclusion

Staff recommends the Commission approve FPL's Petition for mid-course correction to its 2015 fuel factors. The revised fuel factors should become effective with the first billing cycle in May 2015. The recommended fuel factors are presented in Attachment A.

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. (Brownless)

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

Fuel Cost Recovery Factors May 2015 – December 2015				
GROUP	RATE SCHEDULE	AVERAGE FACTOR	FUEL RECOVERY LOSS MULTIPLIER	FUEL RECOVERY FACTOR
A	RS-1 first 1,000kWh	3.121	1.00299	2.802
	RS-1 all additional kWh	3.121	1.00299	3.802
A	GS-1, SL-2, GSCU-1, WIES-1	3.121	1.00299	3.130
A-1	SL-1, OL-1, PL-1	2.898	1.00299	2.907
B	GSD-1	3.121	1.00291	3.130
C	GSLD-1, CS-1	3.121	1.00195	3.127
D	GSLD-2, CS-2, OS-2, MET	3.121	0.99342	3.100
E	GSLD-3, CS-3	3.121	0.96700	3.018
A	GST-1 On-Peak	3.940	1.00299	3.952
	Off-Peak	2.700	1.00299	2.708
	RTR-1 On-Peak			0.822
	Off-Peak			(0.422)
B	GSDT-1, CILC-1(G), HLFT-1 On-Peak	3.940	1.00291	3.952
	Off-Peak	2.700	1.00291	2.708
C	GSLDT-1, CST-1, HLFT-2 On-Peak	3.940	1.00195	3.948
	Off-Peak	2.700	1.00195	2.705
D	GSLDT-2, CST-2, HLFT-3 On-Peak	3.940	0.99410	3.917
	Off-Peak	2.700	0.99410	2.684
E	GSLDT-3, CST-3, CILC-1(T), ISST-1(T) On-Peak	3.940	0.96700	3.810
	Off-Peak	2.700	0.96700	2.611
F	CILC-1(D), ISST-1(D) On-Peak	3.940	0.99318	3.914
	Off-Peak	2.700	0.99318	2.682

Seasonal Demand Time of Use Rider (SDTR) Fuel Recovery Factors On-Peak: June 2015 through September 2015 Weekdays 3:00 pm to 6:00 pm Off-Peak: All Other Hours				
GROUP	OTHERWISE APPLICABLE RATE SCHEDULE	AVERAGE FACTOR	FUEL RECOVERY LOSS MULTIPLIER	SDTR FUEL RECOVERY FACTOR
B	GSD(T)-1 On-Peak	5.743	1.00291	5.759
	Off-Peak	2.647	1.00291	2.654
C	GSLD(T)-1 On-Peak	5.743	1.00195	5.754
	Off-Peak	2.647	1.00195	2.652
D	GSLD(T)-2 On-Peak	5.743	0.99410	5.709
	Off-Peak	2.647	0.99410	2.631

Comparison of 1,000 kWh Residential Bill				
Component	April 2015	May – Dec. 2015	Difference	
			Dollars	Percent
Base Charge	\$54.86	\$54.86	\$0	0%
Fuel Cost Recovery	\$30.96	\$28.02	-\$2.94	-9.50%
Conservation Cost Recovery	\$2.00	\$2.00	\$0	0%
Capacity Payment	\$6.35	\$6.35	\$0	0%
Environmental Cost Recovery	\$2.05	\$2.05	\$0	0%
Storm Restoration Surcharge	<u>\$1.40</u>	<u>\$1.40</u>	<u>\$0</u>	0%
Subtotal	\$97.62	\$94.68	-\$2.94	-3.01%
Gross Receipts Tax	<u>\$2.50</u>	<u>\$2.43</u>	<u>-\$0.07</u>	-2.80%
Totals	<u>\$100.12</u>	<u>\$97.11</u>	<u>-\$3.01</u>	-3.01%