

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:** July 27, 2021

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

**FROM:** Division of Accounting and Finance (Higgins)  
Division of Economics (Draper)  
Office of the General Counsel (Brownless, DuVal)

**RE:** Docket No. 20210001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

**AGENDA:** 08/03/21 – Regular Agenda – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Fay

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** Recommendation 2A – Duke Energy Florida, LLC

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 2021 JUL 27 AM 10:47  
 COMMISSION  
 CLERK

## Case Background

On July 9, 2021, Duke Energy Florida, LLC (DEF or Company), filed for a mid-course correction (MCC Petition) of its 2021 fuel cost recovery factors. DEF's current fuel factors were approved at the December 15, 2020 Special Commission Conference.<sup>1</sup> Underlying the approval of DEF's 2021 factors was the Florida Public Service Commission's (Commission) review of the Company's projected 2021 fuel- and capacity-related service costs. These service costs are recovered through the fuel and capacity cost recovery factors that are set/reset annually in this docket. These cost recovery factors are usually effective for a period of 12 months. However, the Commission requires that if an investor-owned electric utility's fuel or capacity cost recovery position is projected to exceed a specified range within the standard 12-month timeframe, the utility shall promptly notify the Commission by letter delivered to the Commission Clerk. The

<sup>1</sup>Order No. PSC-2021-0024-FOF-EI, issued January 6, 2021, in Docket No. 20210001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.*

notification of a 10 percent cost variance shall include a petition for mid-course correction to the fuel cost recovery or capacity cost recovery factors, or shall include an explanation of why a mid-course correction is not practical. This requirement is codified by Rule 25-6.0424, Florida Administrative Code (F.A.C.), and is commonly referred to as the Commission's "mid-course correction rule." The Commission's mid-course correction rule and its codified procedures are discussed in greater detail below.

***Mid-Course Correction***

Mid-course corrections are used by the Commission between annual fuel clause hearings whenever costs deviate from revenue by a significant margin. Under Rule 25-6.0424, F.A.C., a utility must notify the Commission whenever it expects to experience an under- or over-recovery of greater than 10 percent.

On July 9, 2021, DEF filed its MCC Petition and supporting documentation proposing a mid-course correction of its fuel charges.<sup>2</sup> Specifically, the Commission is being asked to approve an increase in fuel charges due to the Company now projecting a period-ending 2021 under-recovery of fuel costs that exceeds the 10 percent threshold. The proposed increase to DEF's currently-authorized fuel charges is being driven by both actual 2020 and projected 2021 fuel costs being greater than originally assumed, as well as other factors that are discussed further in Issue 1. The Company's petition satisfies the filing requirements of Rule 25-6.0424(1)(b), F.A.C.

DEF has requested that the proposed revised fuel factors and associated tariffs become effective beginning with the first billing cycle of October 2021. However, DEF has offered that if the Commission deems it appropriate, the revised fuel factors could instead become effective on the first billing cycle of September 2021, thereby serving to reduce the projected under-recovery amount carried forward to 2022. These topics are further discussed in both Issues 1 and 2.

The Commission is vested with jurisdiction over the subject matter of this proceeding by the provisions of Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

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<sup>2</sup>Document No. 07679-2021.

## Discussion of Issues

**Issue 1:** Should the Commission modify DEF's currently-approved fuel factors for the purpose of addressing a portion of its currently-projected under-recovery of 2021 fuel costs?

**Recommendation:** Yes. Staff recommends the Commission approve an adjustment to DEF's currently-approved fuel factors for the purpose of incorporating a portion of the total projected 2021 period-ending under-recovery of fuel costs. (Higgins, Brownless, Draper)

**Staff Analysis:** DEF participated in the Commission's most-recent fuel hearing which took place on November 3, 2020. The Fuel Order issued with respect to DEF set forth the Company's fuel, purchased power, and capacity-related cost recovery factors effective with the first billing cycle of January 2021.<sup>3</sup> However, as discussed below, the currently-authorized fuel cost recovery factors are now projected to under-recover the Company's 2021 fuel cost by greater than 10 percent. Staff notes this recommendation is only addressing/recommending recovery of the Company's 2020 final fuel total true-up amount, which following the calculation methodology prescribed by Rule 25-6.0424(1)(a), F.A.C., represents an amount that would not constitute a MCC recovery position of greater than 10 percent.

With respect to the Company's capacity cost recovery levels, its currently-authorized capacity cost recovery factors remain sufficient to return the requisite amount of revenue; therefore, no change is being sought through this mid-course correction process for those factors.

### **DEF Mid-Course Correction**

The Company filed its MCC Petition on July 9, 2021. Preceding the filing of its MCC Petition and in accordance with the noticing requirement of Rule 25-6.0424(2), F.A.C., DEF filed notice on March 25, 2021, informing the Commission that based on a then-recent fuel cost projection, it estimated an under-recovery position of greater than 10 percent for the period-ending 2021 accounting cycle.<sup>4</sup> However, DEF believed the rise in natural gas prices that drove its projected under-recovery of greater than 10 percent was transitory, primarily being driven by increased demand during the 2020-2021 winter months coupled with a short-term decrease in supply stemming from the severe winter storm that impacted Texas and the mid-west during February of 2021. Other market-based factors driving the price increases are reduced levels of both natural gas production and storage, as well as increased exports of liquefied natural gas.

In the aftermath of the aforementioned severe weather event, DEF observed that natural gas prices decreased by approximately 5.7 percent. This reduction in commodity price drove its projected period-ending 2021 under-recovery below the 10 percent threshold, or down to approximately 8 percent.

However, later in the year as conditions changed around its 2021 fuel cost and revenue projections, the Company determined that filing for a mid-course correction of its fuel charges would be required. DEF now projects a period-ending 2021 under-recovery of fuel costs in the amount of \$190,992,316 million. The Company has proposed to address this under-recovery in

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<sup>3</sup>Order No. PSC-2021-0024-FOF-EI.

<sup>4</sup>Document No. 03048-2021.

two parts. The first part/portion is proposed to be collected in 2021 and consists of the 2020 total true up (excluding revenue tax) in the amount of \$39,503,838. The specific recovery period for this first part is the remaining three months of this year, or from October through December 2021. The second part/portion will be proposed for collection in calendar-year 2022 and consists of the current 2021 MCC actual/estimated true up (with interest) in the amount of \$151,488,477.

### **2020 Under-Recovery**

Accounting for the Company's 2021 mid-course correction essentially begins with its under-recovery of fuel costs in 2020. DEF's final (re)projection of 2020 fuel costs filed with the Commission was on September 2, 2020, as part of its *Revised Petition for Approval of Fuel Cost Recovery and Capacity Cost Recovery Actual/Estimated True-Up for the Period January 2020 through December 2020*.<sup>5</sup> The Company's 2020 actual/estimated filing reflects actual fuel cost and revenue data for January through June 2020, and estimated data for July through December 2020. In this filing, the Company projected the 2020 average delivered cost of natural gas would be \$3.31 per MMBtu. However, DEF's actual cost of natural gas for 2020 averaged \$3.37 per MMBtu (increase of 1.8 percent).<sup>6</sup>

The Company initially projected an *over-recovery* of \$61,083,424, which is the amount included in 2021 fuel rates.<sup>7</sup> However, DEF only over-recovered \$21,579,587, leaving a final 2020 *under-recovery*, i.e., final 2020 true up amount, of (\$39,503,838). The final 2020 under-recovery with tax is \$39,532,281, and represents the adjustment amount to current rates being proposed for determining the fuel factors for the remainder of 2021.

### **Projected 2021 Under-Recovery**

DEF's original 2021 fuel cost projection filed for the purposes of cost recovery was on September 3, 2020, as part of its *Petition for Approval of Fuel Cost Recovery and Capacity Cost Recovery Factors for January 2021 through December 2021*.<sup>8</sup> The underlying market-based natural gas price data used to produce the 2021 projections was sourced on June 12, 2020. Specifically, relevant to the MCC Petition, this original projection of future natural gas prices was used to produce an average delivered natural gas cost of \$4.06 per MMBtu for the months of June through December 2021. However, as indicated in the MCC Petition, DEF now projects that the average delivered cost of natural gas for June 2021 through December 2021 will be \$4.60 per MMBtu, which represents an increase of 13.3 percent.<sup>9</sup>

In Table 1-1 below, staff displays the fuel cost and revenue differences between the original and updated 2021 projections, as well as the other primary accounting components for determining the Company's fuel cost recovery position under Rule 25-6.0424, F.A.C.

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<sup>5</sup>Document Nos. 04044-2020 and 05805-2020.

<sup>6</sup>Document No. 03168-2021.

<sup>7</sup>Order No. PSC-2021-0024-FOF-EI.

<sup>8</sup>Document Nos. 05916-2020 and 09682-2020.

<sup>9</sup>Updated 2021 pricing information for the month of June is based on forward market data as of April 12, 2021, and June 14, 2021, for the months July through December.

**Table 1-1  
 Mid-Course Correction Components**

Category	Original Projection (\$)	Mid-Course Projection (\$)	Difference from Original Projection (%)
Total Jurisdictional Fuel & Net Power Transaction Costs	1,279,043,741	1,411,034,824	10.32%
Total Jurisdictional Period-Applicable Fuel Revenues	1,223,244,961 <sup>10</sup>	1,259,598,672 <sup>11</sup>	2.97%
2021 MCC Actual/Estimated True-Up	-	(151,436,157)	-
2020 True-Up	(61,083,424) <sup>12</sup>	(39,503,838) <sup>13</sup>	-
Interest Provision	-	(52,320)	-
Projected 2021 End of Period Total Net True-Up	-	(190,992,316)	-

Sources: Document Nos. 05916-2020 and 07679-2021.  
 Figures may not sum due to rounding.

Following the methodology prescribed in Rule 25-6.0424(1)(a), F.A.C., the mid-course percentage is equal to the estimated end-of-period total net true-up amount, including interest, divided by the current period's total actual and estimated jurisdictional fuel revenue applicable to period, or  $(\$190,992,316) / \$1,259,598,672$ . This calculation results in a mid-course correction level of (15.2) percent. However, at this time DEF is only requesting that its currently-approved fuel factors be adjusted to recover a portion of the end-of-period 2021 under-recovery.

**Fuel Factor**

DEF's currently-approved levelized fuel factor is 3.090 cents per kWh.<sup>14</sup> The Company is requesting to increase the current levelized fuel factor to 3.509 cents per kWh, or by 13.6 percent.

**Bill Impact**

In Table 1-2 below, staff displays the bill impact to a typical residential customer using 1,000 kWh of electricity a month associated with new rates becoming effective in either September or October, through December 2021:

<sup>10</sup>Inclusive of Regulatory Assessment Fee.

<sup>11</sup>Net of Regulatory Assessment Fee.

<sup>12</sup>Represents estimated true-up ending balance for the period January 2020 through December 2020 as approved by Order No. PSC-2021-0024-FOF-EI.

<sup>13</sup>Represents the total true-up for the period ended December 2020.

<sup>14</sup>Order No. PSC-2021-0024-FOF-EI.

**Table 1-2**  
**Monthly Residential Billing Detail at 1,000 kWh**

Invoice Component	Currently-Approved Charges for Sept. Through Dec. 2021 (\$)	Proposed Charges Beginning Sept. or Oct. Through Dec. 2021 (\$)	Approved to Proposed Difference (\$)	Approved to Proposed Difference (%)
Base Charge	\$74.89	\$74.89	-	-
Fuel Charge	28.11	32.28	\$4.17	14.83%
Capacity Charge	14.05	14.05	-	-
Conservation Charge	3.38	3.38	-	-
Environmental Charge	0.99	0.99	-	-
Storm Protection Plan	0.31	0.31	-	-
Interim Storm Charge	0.55	0.55	-	-
Asset Securitization Charge	<u>2.48</u>	<u>2.48</u>	-	-
Gross Receipts Tax	3.20	3.31	\$0.11	3.44%
<b>Total</b>	<b><u>\$127.96</u></b>	<b><u>\$132.24</u></b>	<b><u>\$4.28</u></b>	<b>3.34%</b>

Source: DEF MCC Petition, Schedule E-10.

DEF's current total residential charge for the first 1,000 kWh of usage for January through December 2021 is \$127.96. If the Company's mid-course correction proposal is approved, then the current total residential charge, beginning September or October through December 2021, for the first 1,000 kWh of usage will be \$132.24. This represents an increase of 3.34 percent. For non-residential customers, DEF reported that based on average levels of usage, bill increases for commercial customers would range from approximately 3.20 to 4.10 percent, and approximately 5.20 percent for industrial customers.<sup>15</sup> DEF's proposed tariffs are shown on Appendix A to this recommendation. DEF stated that all customers are being provided notice of the proposed rate change in their August customer bills. In addition, large-account customers will receive notification of the proposed increase from their DEF account representative.

In summary, staff recommends the Company's fuel cost recovery factors be adjusted to incorporate a portion of the projected end-of-year 2021 fuel cost under-recovery associated with the final 2020 under-recovery. If the Commission approves staff's recommendation in Issue 2, the factors will remain the same, however it is estimated that approximately \$16.4 million of the 2021 projected under-recovery will be collected this year. The remaining under-recovery of fuel costs for 2021 will be carried forward and included for recovery during calendar year 2022.

<sup>15</sup>Document No. 07942-2021, filed July 14, 2021, DEF's Responses to Staff's First Data Request, No. 6.

**Conclusion**

Staff recommends the Commission approve an adjustment to DEF's currently-approved fuel factors for the purpose of incorporating a portion of the total projected 2021 period-ending under-recovery of fuel costs.

**Issue 2:** If approved by the Commission, what is the appropriate effective date for DEF's revised fuel cost recovery factors?

**Recommendation:** Staff recommends that the fuel cost recovery factors as shown on Appendix A become effective with the first billing cycle of September 2021. (Draper, Brownless, DuVal)

**Staff Analysis:** DEF has requested that the revised fuel cost recovery factors become effective with the first billing cycle of October 2021. However, DEF has also stated that if the Commission deems it appropriate, revised fuel cost recovery factors could instead become effective with the first billing cycle of September 2021, thereby serving to reduce the projected under-recovery amount carried into 2022.

Over the last 20 years in the Fuel Clause docket, the Commission has considered the effective date of rates and charges of revised fuel cost recovery factors on a case-by-case basis. The Commission has approved fuel cost recovery factor rate decreases effective sooner than the next full billing cycle after the date of the Commission's vote, with the range between the vote and effective date being from 25 to 2 days. The rationale for that action being that it was in the customers' best interests to implement the lower rate as soon as possible.<sup>16</sup> With regard to fuel cost recovery factor rate increases, the Commission has approved an effective date of the revised factors ranging from 14 to 29 days after the vote.<sup>17</sup> In two of these cases, the Commission noted that the utility had given its customers 30 days' written notice before the date of the vote that a fuel cost recovery factor increase had been requested and provided the proposed effective date of the higher fuel factors.<sup>18</sup>

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<sup>16</sup>Order No. PSC-08-0825-PCO-EI, issued December 22, 2008, in Docket No. 080001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-09-0254-PCO-EI, issued April 27, 2009, in Docket No. 090001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-11-0581-PCO-EI, issued on December 19, 2011, in Docket No. 110001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-12-0342-PCO-EI, issued July 2, 2012, in Docket No. 120001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-2012-0082-PCO-EI, issued February 24, 2012, in Docket No. 120001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-15-0161-PCO-EI, issued April 30, 2015, in Docket No. 150001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-2018-0313-PCO-EI, issued June 18, 2018, in Docket No. 20180001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order PSC-2020-0154-PCO-EI, issued May 14, 2020, in Docket No. 20200001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*.

<sup>17</sup>Order No. PSC-03-0381-PCO-EI, issued March 19, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-03-0382-PCO-EI, issued March 19, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-03-0400, issued March 24, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-03-0849-PCO-EI, issued July 22, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-09-0213-PCO-EI, issued April 9, 2009, in Docket No. 090001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-2019-0109-PCO-EI, issued March 22, 2019, in Docket No. 20190001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*.

<sup>18</sup>Order No. PSC-09-0213-PCO-EI; Order No. PSC-2019-0109-PCO-EI.



In its petition, DEF proposes to apply and collect a portion of the current under-recovery of fuel cost over three months beginning with the first billing cycle of October 2021, and ending with the last billing cycle of December 2021. The Company states that it is only seeking to recover a portion of the total period-ending 2021 under-recovery given the limited timeframe available and the associated impact that full-recovery would have on fuel factors. The remaining 2021 under-recovery will become part of DEF's 2022 fuel cost recovery factor and be recovered during 2022. However, if the Commission deems it appropriate, DEF believes the revised fuel factors, as shown on Appendix A, could become effective with the September billing cycle, rather than the as-proposed October billing cycle. This would allow the Company to begin collecting a portion of what will become the actual 2021 under-recovery, thus serving to mitigate the 2022 rate impact. DEF proposes to address the remaining 2021 estimated under-recovery in its 2022 projection testimony due to be filed on or before September 3, 2021.

In the instant case, there are 24 days between the Commission's vote on August 3<sup>rd</sup> and the beginning of DEF's September billing cycle (August 27).<sup>19</sup> Staff believes beginning the recovery with the September, rather than the October, billing cycle will help spread the under-recovery over a longer period thereby decreasing the amount to be collected in 2022 by approximately \$16.4 million. This will help ameliorate the rate impact for customers in 2022.

DEF has stated all customers are being notified of the proposed rate change through a bill insert in their August 2021 bills. The rate-change notification is also being posted on DEF's website. In addition, large-account customers will receive notification of the proposed increase from their DEF account representative.<sup>20</sup>

All aspects considered, staff believes working to effectively balance the proposed 2021 rate increase and the expected 2022 rate increase by smoothing the amplitude of the bill impact over the entire recovery period warrants allowing DEF's revised fuel cost recovery factors to become effective with the first billing cycle of September 2021.

## **Conclusion**

Based on the above, staff recommends that the fuel cost recovery factors as shown on Appendix A become effective with the first billing cycle of September 2021.

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<sup>19</sup>DEF's September billing cycle begins on August 27, 2021. See Document No. 07942-2021, filed July 14, 2021, DEF's Responses to Staff's First Data Request, No. 2.

<sup>20</sup>Document No. 07942-2021, filed July 14, 2021, DEF's Responses to Staff's First Data Request, No. 8.

**Issue 3:** Should this docket be closed?

**Recommendation:** No. The 20210001-EI docket is an on-going proceeding and should remain open. (Brownless)

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



SECTION NO. VI  
NINETY-FOURTH FIFTH REVISED SHEET NO. 6.105  
CANCELS NINETY-THIRD FOURTH REVISED SHEET NO. 6.105

RATE SCHEDULE BA-1 BILLING ADJUSTMENTS								
Page 1 of 3								
Applicable: To the Rate Per Month provision in each of the Company's filed rate schedules which reference the billing adjustments set forth below.								
COST RECOVERY FACTORS								
Rate Schedule/Metering Level	ECCR <sup>(2)</sup>		CCR <sup>(3)</sup>		ECRC <sup>(4)</sup>	ASC <sup>(5)</sup>	SPPCRC <sup>(6)</sup>	SCRS <sup>(7)</sup>
	¢/ kWh	\$/ kW	¢/ kWh	\$/ kW	¢/ kWh	¢/ kWh	¢/ kWh	¢/ kWh
RS-1, RST-1, RSL-1, RSL-2, RSS-1 (Sec.) < 1000 > 1000	0.338	-	1.405	-	0.099	0.248	0.031	0.055
GS-1, GST-1 Secondary	0.326	-	1.342	-	0.098	0.244	0.026	0.045
Primary	0.323	-	1.329	-	0.097	0.242	0.026	0.045
Transmission	0.319	-	1.315	-	0.096	0.239	0.025	0.044
GS-2 (Sec.)	0.223	-	0.808	-	0.095	0.147	0.013	0.022
GSD-1, GSDT-1, SS-1*								
Secondary	-	1.08	-	4.20	0.096	0.192	0.019	0.030
Primary	-	1.07	-	4.16	0.095	0.190	0.019	0.030
Transmission	-	1.06	-	4.12	0.094	0.186	0.019	0.029
CS-1, CST-1, CS-2, CST-2, CS-3, CST-3, SS-3*								
Secondary	-	0.35	-	1.22	0.091	0.128	0.026	0.051
Primary	-	0.35	-	1.21	0.090	0.127	0.026	0.050
Transmission	-	0.34	-	1.20	0.089	0.125	0.025	0.050
IS-1, IST-1, IS-2, IST-2, SS-2*								
Secondary	-	0.94	-	3.50	0.093	0.160	0.013	0.016
Primary	-	0.93	-	3.47	0.092	0.156	0.013	0.016
Transmission	-	0.92	-	3.43	0.091	0.157	0.013	0.016
LS-1 (Sec.)	0.098	-	0.172	-	0.091	0.030	0.017	0.047
*SS-1, SS-2, SS-3 Monthly								
Secondary	-	0.104	-	0.404	-	-	-	-
Primary	-	0.103	-	0.400	-	-	-	-
Transmission	-	0.102	-	0.396	-	-	-	-
Daily								
Secondary	-	0.050	-	0.192	-	-	-	-
Primary	-	0.050	-	0.190	-	-	-	-
Transmission	-	0.049	-	0.186	-	-	-	-
GSLM-1, GSLM-2	See appropriate General Service rate schedule							

  

Fuel Cost Recovery <sup>(1)</sup>			
Rate Schedule/Metering Level	Levelized	On-Peak	Off-Peak
	¢/ kWh	¢/ kWh	¢/ kWh
RS-1 Only < 1,000	2.8443.228	N/A	N/A
RS-1 Only > 1,000	3.6444.228	N/A	N/A
LS-1 Only Secondary	2.0553.356	N/A	N/A
All Other Rate Schedules Secondary	3.0943.514	3.8744.396	2.7443.117
All Other Rate Schedules Primary	3.0623.479	3.8324.352	2.7123.086
All Other Rate Schedules Transmission	3.0323.444	3.7934.308	2.6803.055

(Continued on Page No. 2)

ISSUED BY: Thomas G. Foster, Vice President, Rates & Regulatory Strategy – FL  
EFFECTIVE: September 1, 2021