

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) *ALM*
Division of Economics (Draper) *JGH*
Office of the General Counsel (Brownless, DuVal) *JSC*

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 2B – Tampa Electric Company

Case Background

On July 19, 2021, Tampa Electric Company (TECO or Company), filed for a mid-course correction (TECO MCC Petition) of its 2021 fuel cost recovery factors. TECO's current fuel factors were approved at the November 3, 2020 Commission Conference.¹

Underlying the approval of TECO'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-

¹Order No. PSC-2020-0439-FOF-EI, Issued November 16, 2020, in Docket No. 20200001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.*

month timeframe, the utility shall promptly notify the Commission by letter delivered to the Commission Clerk. The 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 19, 2021, TECO filed its MCC Petition and supporting documentation proposing a mid-course correction of both its fuel and capacity charges. Specifically, the Commission is being asked to approve increases in fuel and capacity charges due to the Company now projecting period-ending 2021 under-recoveries of both fuel and capacity costs that exceed the 10 percent threshold. The proposed increase to TECO's currently-authorized fuel charges is being driven by projected 2021 fuel and capacity costs being greater than originally estimated, as well as other factors that are discussed further in Issue 1. Higher natural gas prices is the primary driver of both under-recoveries. While the factors established in the fuel clause are directly affected by changes in fuel prices, capacity costs may indirectly be affected as well. In this instance, higher natural gas prices led to higher capacity costs due to a greater amount of economically-viable energy (economy purchases carrying an associated capacity cost) available for purchase.

The Company has requested that the proposed revised fuel and capacity factors and associated tariff become effective beginning with the first billing cycle of September 2021. This topic is further discussed in both Issues 1 and 2. The petition and supporting documentation satisfies the filing requirements of Rule 25-6.0424(1)(b), F.A.C.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.

²Document Nos. 08085-2021 and 08252-2021.

Discussion of Issues

Issue 1: Should the Commission modify TECO's currently-approved fuel and capacity factors for the purposes of addressing currently-projected under-recoveries of 2021 fuel and capacity costs?

Recommendation: Yes. Staff recommends the Commission approve an adjustment to TECO's currently-approved fuel cost recovery factors for the purpose of incorporating the total projected period-ending 2021 under-recovery of its fuel costs in the amount of \$73,680,277. Staff further recommends the Commission approve an adjustment to TECO's capacity cost recovery factors to incorporate a projected period-ending 2021 under-recovery of capacity costs in the amount of \$9,628,629. (Higgins, Draper, Brownless)

Staff Analysis: TECO participated in the Commission's most-recent fuel hearing which took place on November 3, 2020. The Fuel Order issued with respect to TECO set forth the Company's fuel, purchased power, and capacity-related cost recovery factors effective with the first billing cycle of January 2021.³ However, as discussed below, both the currently-authorized fuel and capacity cost recovery factors are now projected to be in under-recovery positions at the end of the year by greater than 10 percent.

TECO Mid-Course Correction – Fuel and Purchased Power

TECO filed its MCC Petition on July 19, 2021. TECO states that throughout 2021, it has continuously monitored and evaluated its fuel and purchased power cost recovery revenue and expenses on an ongoing basis. However, at this point in the accounting cycle, based on mid-year updates to its cost and revenue projections, TECO now expects a period-ending 2021 under-recovery of fuel costs in excess of the 10 percent threshold set forth in Rule 25-6.0424(1)(a), F.A.C. The Company attributes the increase in natural gas costs to reduced levels of both natural gas production and storage, as well as increased exports of liquefied natural gas. TECO also states that it expects the aforementioned factors driving natural gas prices higher to persist into 2022. TECO is requesting to collect the under-recovery over a four-month period, or from September through December 2021.

TECO Mid-Course Correction – Capacity

As part of its request, TECO is proposing to increase its 2021 capacity cost recovery factors to incorporate a projected 2021 under-recovery of \$9,628,629. TECO's capacity mid-course correction position following the calculation methodology in Rule 25-6.0424(1)(a), F.A.C., is 444 percent.⁴ TECO states the projected under-recovery is caused by greater projected amounts of economic power purchases due to the increased cost of natural gas making such options more economically viable.

Incorporated in its capacity MCC request is a final 2020 capacity cost under-recovery of \$3,354,779.⁵ As proposed, and in similar fashion to the fuel cost recovery proposal, the mid-

³Order No. PSC-2020-0439-FOF-EI.

⁴Document No. 08196-2021.

⁵Document Nos. 08085-2021 and 03197-2021.

course correction related to capacity will be distributed over the same four-month period, or from September through December 2021.

Period-Ending 2020 Recovery Positions

Fuel

TECO initially projected an under-recovery of (\$25,479,055), which is the amount included in the 2021 fuel factors.⁶ However, TECO only under-recovered (\$21,709,799), leaving a final 2020 over-recovery, i.e., final 2020 true up amount, of \$3,769,256.⁷ The final 2020 over-recovery is being proposed for refund in 2021 as part of the mid-course correction.

Capacity

Concerning TECO's capacity costs, the Company initially projected for 2020 an actual/estimated over-recovery of \$1,771,480.⁸ However, TECO's actual 2020 capacity true up was an under-recovery of (\$1,583,299), resulting in a final 2020 capacity true-up amount under-recovery of (\$3,354,779).⁹ This final 2020 under-recovery is being proposed for collection as part of the capacity mid-course correction.

Projected 2021 Recovery Positions

Fuel

TECO'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 2021.¹⁰

The underlying market-based natural gas price data used to produce the 2021 projections was sourced during August 2020. The original projection of future natural gas prices was used to produce an average delivered natural gas cost of \$3.89 per MMBtu for 2021. However, as indicated in the MCC Petition, TECO now projects that the average delivered cost of natural gas for 2021 will be \$4.34 per MMBtu, which represents an increase of 11.6 percent.¹¹

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 TECO's fuel cost recovery position under Rule 25-6.0424, F.A.C.

⁶Order No. PSC-2020-0439-FOF-EL.

⁷Document Nos. 08252-2021 and 08266-2021.

⁸Document No. 06604-2020.

⁹Document No. 03197-2021.

¹⁰Document No. 05951-2020.

¹¹Updated 2021 pricing information for the months July through December is based on forward market (New York Mercantile Exchange, or "NYMEX") data using an average of 5 trading days ending July 2, 2021.

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

Category	Original Projection (\$)	Mid-Course Projection (\$)	Difference from Original Projection (%)
Total Jurisdictional Fuel & Net Power Transaction Costs	592,624,880 ¹²	677,154,125	14.26
Total Jurisdictional Period-Applicable Fuel Revenues	618,103,935	599,809,922	(2.96)
2021 MCC Actual/Estimated True-Up	-	(77,344,203)	-
2020 True-Up	(25,479,055) ¹³	3,769,256 ¹⁴	-
Interest Provision	-	(105,330)	-
Projected 2021 End of Period Total Net True-Up	-	(73,680,277) ¹⁵	-

Sources: Document Nos. 05951-2020 and 08085-2021.
 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 $(\$73,680,277) / \$599,809,922$. This calculation results in a mid-course correction level of (12.3) percent.¹⁶

Fuel Factor

TECO's currently-approved levelized fuel factor is 3.162 cents per kWh.¹⁷ The Company is requesting to increase the current levelized fuel factor to 4.255 cents per kWh (with tax), or by 34.6 percent.¹⁸

Capacity

TECO's original 2021 capacity 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 2021.¹⁹ In the filing for 2021 rates, TECO projected its net capacity cost for 2021 to be \$353,890. However, TECO now expects its 2021 net capacity cost to be \$8,426,625, for a difference of \$8,072,735.

¹²Inclusive of Optimization Mechanism sharing amount, Generation Performance Incentive Factor amount, and revenue taxes.

¹³Represents the estimated under-recovery true-up balance for the period January 2020 through December 2020 as approved by Order No. PSC-2020-0439-FOF-EI.

¹⁴Represents the total true-up for the period ended December 2020.

¹⁵Represents the period-ending 2021 mid-course correction under-recovery amount.

¹⁶Document No. 08196-2021.

¹⁷Order No. PSC-2020-0439-FOF-EI.

¹⁸Recovery factor shown on "Exhibit B" of the MCC Petition, page 5 of 33, line 13.

¹⁹Document No. 05951-2020.

TECO stated the reason for increased capacity-related costs is primarily due to greater projected amounts of economic power purchases. Similar to the implementation request for revised fuel factors, the revised capacity factors are contemplated to be effective over the September through December 2021 time period.

Bill Impact – As-Filed Request

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 fuel and capacity cost recovery factors becoming effective in September 2021:

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

Invoice Component	Currently-Approved Charges (\$)	Proposed Charges September Through December 2021 (\$)	Approved to Proposed Difference (\$)	Approved to Proposed Difference (%)
Base Charge	\$67.30	\$67.30	-	-
Fuel Charge	28.56	39.38	10.82	37.89
Conservation Charge	1.66	1.66	-	-
Capacity Charge	0.02	1.70	1.68	8,400.00
Environmental Charge	2.69	2.69	-	-
Storm Protection Plan Charge	2.39	2.39	-	-
Gross Receipts Tax	2.63	2.95	0.32	12.17
Total	<u>\$105.25</u>	<u>\$118.07</u>	<u>\$12.82</u>	12.18%

Source: TECO MCC Petition, Schedule E-10.

TECO’s current total residential charge for the first 1,000 kWh of usage for January through December 2021 is \$105.25. If TECO’s mid-course correction proposal is approved, then the current total residential charge, beginning September 2021, for the first 1,000 kWh of usage will be \$118.07. This represents an increase of 12.18 percent. For non-residential customers, TECO reported that based on average levels of usage and specific rate schedule, bill increases for small commercial customers would range from approximately 11.1 to 12.7 percent, bill increases for medium-size commercial customers would range from approximately 12.8 to 15.4 percent, and approximately 16.0 percent for large commercial/industrial customers.²⁰ TECO’s proposed tariff is shown on Appendix A to this recommendation.

²⁰Document No. 08196-2021, filed July 21, 2021, TECO’s Responses to Staff’s First Data Request, No. 6.

2021 Recovery Option

Due to the magnitude of the requested late-year rate increase, staff has estimated the effect of a reduction to TECO's requested MCC amount, which for ease of reference is (\$73,680,277). For staff's estimation, the revenue (increase) amount was limited to the actual fuel true-up amount only, or (\$26,698,570).²¹ The actual true-up is as of the end of June 2021. This option would constitute a reduction in the amount of (\$46,981,707) to TECO's as-filed request. For recovery purposes, any amount reduced from TECO's as-filed request would carry over into 2022.

TECO's requested fuel cost recovery increase results in a "first-tier residential factor," (i.e., residential charge for the first 1,000 kWh of energy sales) of 3.938 cents per kWh. This factor produces a fuel charge of \$39.38 for the first 1,000 kWh of energy usage.²² The staff-estimated first-tier residential factor is 3.295 cents per kWh.²³ This would result in an estimated fuel charge of \$32.95 for the first 1,000 kWh of energy usage. The estimated increase in the total bill under this scenario is approximately \$6.23, or a 5.9 percent increase, from \$105.25 to \$111.48.

Summary

Staff recommends TECO's fuel cost recovery factors be adjusted to incorporate the projected 2021 end-of-year fuel cost under-recovery. Staff also recommends TECO's capacity cost recovery factors be adjusted to incorporate the projected 2021 end-of-year capacity cost under-recovery. The revised fuel and capacity factors associated with staff's recommendations are shown on Appendix A.

Conclusion

Staff recommends the Commission approve an adjustment to TECO's currently-approved fuel cost recovery factors for the purpose of incorporating the total projected period-ending 2021 under-recovery of its fuel costs in the amount of \$73,680,277. Staff further recommends the Commission approve an adjustment to TECO's capacity cost recovery factors to incorporate a projected period-ending 2021 under-recovery of capacity costs in the amount of \$9,628,629.

²¹Document No. 08085-2021, Exhibit A, page 2 of 3.

²²Document No. 08085-2021, Schedule E1-E.

²³Staff notes that due to differences in specificity and method of calculating rates, its estimate of the fuel factor and TECO's calculation may slightly differ.

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

Recommendation: Staff recommends that the fuel cost recovery and capacity factors as shown on Appendix A become effective with the first billing cycle of September 2021. If the Commission approves alternative cost recovery amounts, TECO should file revised tariff sheet No. 6.020 consistent with the Commission's decision within five days of the vote for administrative approval by staff. (Draper, Brownless, DuVal)

Staff Analysis: In its petition, TECO has requested that the revised fuel and capacity cost recovery factors become effective with the first billing cycle of September 2021.

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 the 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.²⁴ 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.²⁵ 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.²⁶

²⁴Order 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*.

²⁵Order 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*.

²⁶Order No. PSC-09-0213-PCO-EI; Order No. PSC-2019-0109-PCO-EI.

In its petition, TECO proposes to collect the current under-recoveries of fuel and capacity costs over the last four months of the year, beginning with the first billing cycle of September 2021, and ending with the last billing cycle of December 2021. In the instant case, there are 29 days between the Commission's vote on August 3rd and the beginning of TECO's September billing cycle (September 1).²⁷

Concerning customer advisement of the instant request, TECO states that the proposed rate-change notifications are planned for customer bills beginning with August invoices. If the Commission issues a decision at the August Commission Conference, TECO will replace the proposed-change notification with one that describes the approved factors and bill changes, for the remaining August billing cycles. Additionally, on July 19, 2021, which is the same day TECO submitted its MCC Petition, the Company posted a "news release" on its website describing the proposal. Finally, TECO provided that its front-line customer service professionals are trained to respond to questions about the mid-course changes.²⁸

Conclusion

Staff recommends that the fuel cost recovery and capacity factors as shown on Appendix A become effective with the first billing cycle of September 2021. If the Commission approves alternative cost recovery amounts, TECO should file revised tariff sheet No. 6.020 consistent with the Commission's decision within five days of the vote for administrative approval by staff.

²⁷Document No. 08196-2021, filed July 21, 2021, TECO's Responses to Staff's First Data Request, No. 5.

²⁸Document No. 08196-2021, filed July 21, 2021, TECO'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.



EIGHTY-FIRST~~ETH~~ REVISED SHEET NO. 6.020
 CANCELS SEVENTY-NIN~~ETH~~~~TIETH~~ REVISED SHEET NO. 6.020

ADDITIONAL BILLING CHARGES					
TOTAL FUEL AND PURCHASED POWER COST RECOVERY CLAUSE: The total fuel and purchased power cost recovery factor shall be applied to each kilowatt-hour delivered, and shall be computed in accordance with the formula prescribed by the Florida Public Service Commission. The following fuel recovery factors by rate schedule have been approved by the Commission:					
RECOVERY PERIOD (September January 2021 through December 2021)					
Rate Schedules	¢/kWh Fuel			¢/kWh Capacity	¢/kWh Environmental
	Standard	Peak	Off-Peak		
RS (up to 1,000 kWh)	3.9382-856			0.1700-002	0.269
RS (over 1,000 kWh)	4.9382-856			0.1700-002	0.269
RSVP-1 (P ₁)	4.2553-167			0.1700-002	0.269
(P ₂)	4.2553-167			0.1700-002	0.269
(P ₃)	4.2553-167			0.1700-002	0.269
(P ₄)	4.2553-167			0.1700-002	0.269
GS, GST	4.2553-167	4.6203-335	4.0993-005	0.1500-002	0.269
CS	4.2553-167			0.1500-002	0.269
LS-1, LS-2	4.1873-136			0.0220-000	0.258
GSD Optional					
Secondary	4.2553-167			0.1130-002	0.265
Primary	4.2123-135			0.1120-002	0.262
Subtransmission	4.1703-104			0.1110-002	0.260
Rate Schedules	¢/kWh Fuel			\$/kW Capacity	¢/kWh Environmental
	Standard	Peak	Off-Peak		
GSD, GSDT, SBF, SBFT					
Secondary	4.2553-167	4.6203-335	4.0993-005	0.520-04	0.265
Primary	4.2123-135	4.5743-302	4.0583-064	0.510-04	0.262
Subtransmission	4.1703-104	4.5283-268	4.0173-033	0.510-04	0.260
IS, IST, SBI					
Primary	4.2123-135	4.5743-302	4.0583-064	0.450-00	0.254
Subtransmission	4.1703-104	4.5283-268	4.0173-033	0.440-00	0.252

Continued to Sheet No. 6.021

ISSUED BY: ~~A.D. Collins~~ ~~N. G. Tower~~,
 President

DATE EFFECTIVE: ~~September~~ ~~January~~ 1, 2021