

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-**

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**DATE:** April 25, 2024

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

**FROM:** Division of Accounting and Finance (Higgins, G. Kelley, Zaslow) *ALM*  
Division of Economics (Hampson, P. Kelley) *EJD*  
Office of the General Counsel (Brownless, Sandy) *JSC*

**RE:** Docket No. 20240001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

**AGENDA:** 05/07/24 – Regular Agenda – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Passidomo

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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## Case Background

On April 8, 2024, Duke Energy Florida, LLC (DEF or Company), filed for revision of its currently effective 2024 fuel cost recovery factors (MCC Petition).<sup>1</sup> DEF's currently effective fuel factors were approved last year at the November 1, 2023 final hearing.<sup>2</sup> Underlying the approval of DEF's 2024 fuel factors was the Florida Public Service Commission's (Commission) review of the Company's projected 2024 fuel- and capacity-related costs. These costs are recovered through fuel and capacity cost recovery factors that are set/reset annually in this docket.

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<sup>1</sup>Document No. 01668-2024.

<sup>2</sup>Order No. PSC-2023-0343-FOF-EI, issued November 16, 2023, in Docket No. 20230001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.*

***Mid-Course Corrections***

Mid-course corrections are used by the Commission between annual clause hearings whenever costs deviate from revenue by a significant margin. Under Rule 25-6.0424, Florida Administrative Code (F.A.C.), which is commonly referred to as the “mid-course correction rule,” a utility must notify the Commission whenever it expects to experience an under- or over-recovery of certain service costs greater than 10 percent. The notification of a 10 percent cost-to-revenue 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. The mid-course correction rule and its codified procedures are further discussed throughout this recommendation.

***DEF’s Petition***

In its MCC Petition, the Company currently estimates a net \$233,496,431 million reduction in fuel-related costs for the 2024 period relative to its previous estimate. DEF is proposing to use June 2024 through May 2025 forecasted sales in determining its proposed mid-course fuel factors. If approved, this proposal will have the effect of reducing fuel cost recovery factors for the remainder of this year as well as 2025. The mid-course correction amount and rate methodology are further discussed in Issue 1.

The Company is requesting that its revised fuel cost recovery factors and associated tariff become effective beginning with the first billing cycle of June 2024. The proposed effective date 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.

## Discussion of Issues

**Issue 1:** Should the Commission modify DEF's currently authorized fuel cost recovery factors for the purpose of incorporating its projected 2024 fuel cost reduction?

**Recommendation:** Yes. Staff recommends the Commission authorize adjustments to DEF's fuel cost recovery factors for the purpose of incorporating the Company's currently projected 2024 fuel cost reduction. Accordingly, DEF's 2024 fuel cost recovery factors should be reduced by \$233,496,431. (G. Kelley, Zaslow, Higgins)

**Staff Analysis:** DEF participated in the Commission's most-recent fuel hearing which took place on November 1, 2023. The fuel order stemming from this proceeding set forth the Company's fuel and capacity cost recovery factors effective with the first billing cycle of January 2024.<sup>3</sup> Following the issuance of the fuel order, the Company has subsequently updated its 2024 fuel cost projection. DEF now projects its 2024 fuel-related costs to be approximately \$233 million (net) lower than estimated in September 2023.<sup>4</sup> This reduction is primarily due to lower assumed prices for natural gas. The main factors influencing the decline in actual and projected natural gas prices in 2024 are elevated quantities of natural gas in storage and milder weather compared to previous years.<sup>5</sup>

### **DEF Fuel and Purchased Power Mid-Course Correction**

DEF filed for a mid-course correction of its fuel charges on April 8, 2024.<sup>6</sup> The Company's MCC Petition and supporting documentation satisfies the filing requirements of Rule 25-6.0424(1)(b), F.A.C.

The Company developed its proposed mid-course correction factors using twelve months of forecasted sales data, or from June 2024 through May 2025. The factors proposed in this proceeding are currently contemplated to be charged for seven months in 2024. As is typical procedure, later this year newly developed 12-month-applicable factors will be proposed for authorization to begin with the first billing cycle of January 2025.

### **Actual Period-Ending 2023 Fuel Cost Recovery Position**

Through its February 27, 2023, amended mid-course correction filing, DEF initially projected a period-specific 2023 over-recovery of fuel costs in the amount of \$710,224,788.<sup>7</sup> By its revised actual/estimated filing and in compliance with Order No. PSC-2023-0112-PCO-EI, the projected period-specific 2023 over-recovery of fuel costs was amended by \$119,078,499. This resulted in a projected period-specific 2023 over-recovery of \$829,303,287 and a total true-up under-recovery of (\$554,889,752).<sup>8</sup> However, the Company under-recovered (i.e., "less period over-

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<sup>3</sup>*Id.*

<sup>4</sup>Document No. 05083-2023.

<sup>5</sup><https://www.eia.gov/outlooks/steo/archives/apr24.pdf>

<sup>6</sup>Document No. 01668-2024.

<sup>7</sup>Document No. 01366-2023.

<sup>8</sup>Document No. 05083-2023. Further, staff notes the Company's estimated end-of-period 2023 under-recovery in the amount of (\$554,889,752) is embedded in current rates per Order No. PSC-2023-0343-FOF-EI. This amount constitutes the remainder of the approximate (\$1.4 billion) net under-recovery of 2022 fuel costs ordered to be

recovery”) this amount by (\$19,202,150) as its actual fuel cost recovery position at the end of 2023 is an under-recovery of (\$574,091,902).<sup>9</sup> This approximate (\$19.2) million difference is proposed for inclusion in rates through the instant proceeding.

Decreased pricing for natural gas is the primary driver of the approximate \$829 million period over-recovery of 2023 fuel costs discussed above. More specifically, the Company estimated an annual delivered natural gas cost of \$8.07 per million British thermal unit (MMBtu) in its first fuel cost projection of 2023.<sup>10</sup> However, as indicated in the Company’s December 2023 A-Schedule, DEF’s average 2023 cost of natural gas was \$4.16 per MMBtu, representing a difference of 48.5 percent.<sup>11</sup> Natural gas-fired generation comprised approximately 85.5 percent of DEF’s generation mix in 2023.<sup>12</sup>

### ***Projected 2024 Fuel Cost Recovery Position***

DEF’s 2024 fuel-related revenue requirement has decreased substantially since the filing of its last cost projection in September 2023.<sup>13</sup> More specifically, the results of this updated estimate are a reduction in DEF’s estimated 2024 fuel-related costs in the amount of \$252,698,582. As mentioned above, the 2023 remaining period-specific under-recovery of (\$19,202,150) is proposed for collection through new 2024 rates. Thus, the proposed net or decremental amount for inclusion into 2024 rates is \$233,496,431.<sup>14</sup>

The primary factor driving the change in projected 2024 fuel costs is lower assumed pricing for natural gas. More specifically, the underlying market-based natural gas price data used for the 2024 fuel cost projection was sourced on August 11, 2023.<sup>15</sup> This underlying data was used to produce an estimated average delivered 2024 natural gas cost of approximately \$5.19 per MMBtu.<sup>16</sup> However, indicated in its MCC Petition, DEF now estimates its average cost of natural gas in 2024 will be \$3.99 per MMBtu, representing a decrease of 23.1 percent.<sup>17</sup> The updated cost estimate was based on natural gas futures/prices sourced on March 12, 2024, or roughly seven months later than the previous estimate used to set current rates.<sup>18</sup> Natural gas-fired generation is projected to comprise approximately 81.3 percent of DEF’s generation mix in 2024.<sup>19</sup>

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collected in 2023 and 2024. *See* Order No. PSC-2023-0122-PCO-EI, issued March 24, 2023, in Docket No. 20230001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*.

<sup>9</sup>Document No. 01573-2024.

<sup>10</sup>Document No. 05978-2022.

<sup>11</sup>Document No. 00236-2024.

<sup>12</sup>*Id.*

<sup>13</sup>Document No. 05083-2023.

<sup>14</sup>Document No. 01668-2024.

<sup>15</sup>Document No. 05083-2023.

<sup>16</sup>*Id.*

<sup>17</sup>Document No. 01668-2024.

<sup>18</sup>*Id.*

<sup>19</sup>*Id.*

### **Recovery Period and Interest Premium**

As proposed, the accounting period for the 2024-applicable portion of the over-recovery is seven months, or beginning June 2024 and ending December 2024.<sup>20</sup> Jurisdictional sales from June 2024 through May 2025 in the amount of 40,548,317 (meter) megawatt-hours were used to develop the mid-course correction factors proposed for approval in this proceeding.

DEF utilized the 30-day AA Financial Commercial Paper Rate published by the U.S. Federal Reserve to determine its actual 2023 and 2024 (January and February) interest amounts.<sup>21</sup> The projected 2024 monthly interest rate was assumed for all forward months by using/holding constant the actual February 2024 interest rate of 0.442 percent (monthly).

### **Mid-Course Correction Percentage**

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, including interest, divided by the current period's total actual and estimated jurisdictional fuel revenue applicable to period, or  $\$233,496,431 / \$1,509,155,533$ .<sup>22</sup> This calculation results in a mid-course correction level of approximately 15.5 percent at December 31, 2024.

### **Fuel Factor**

DEF's currently-approved annual levelized fuel factor beginning with the first January 2024 billing cycle is 5.239 cents per kilowatt-hour (kWh).<sup>23</sup> The Company is requesting to decrease its currently approved 2024 annual levelized fuel factor beginning June 2024 to 4.663 cents per kWh, a decrease of approximately 11.0 percent.<sup>24</sup>

### **Bill Impacts**

In Table 1-1 below, the bill impact of the mid-course correction on a residential customer using 1,000 kWh of electricity a month is shown. Following Table 1-1, staff discusses the impacts of the mid-course correction on non-residential customers.

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<sup>20</sup>*Id.*

<sup>21</sup>Document No. 01787-2024.

<sup>22</sup>Document No. 01668-2024, Schedule E1-B.

<sup>23</sup>Order No. PSC-2023-0343-FOF-EI.

<sup>24</sup>Document No. 01668-2024.

**Table 1-1  
 Duke Energy Florida, LLC  
 Monthly Residential Billing Detail for the First 1,000 kWh**

<b>Invoice Component</b>	<b>Currently Approved Charges May 2024 (\$)</b>	<b>Proposed Charges Beginning June 2024 (\$)</b>	<b>Difference (\$)</b>	<b>Difference (%)</b>
Base Charge	\$81.19	\$81.19	\$0.00	0.0%
Fuel Charge	49.47	43.72	(5.75)	(11.6%)
Capacity Charge	9.46	9.46	0.00	0.0%
Conservation Charge	3.30	3.30	0.00	0.0%
Environmental Charge	0.46	0.46	0.00	0.0%
Storm Protection Plan Charge	5.10	5.10	0.00	0.0%
Storm Restoration Surcharge	5.09	5.09	0.00	0.0%
Asset Securitization Charge	<u>2.36</u>	<u>2.36</u>	<u>0.00</u>	0.0%
Gross Receipts Tax	<u>4.15</u>	<u>4.00</u>	<u>(0.15)</u>	(3.6%)
<b>Total</b>	<u>\$160.58</u>	<u>\$154.68</u>	<u>(\$5.90)</u>	(3.7%)

Source: Document No. 01668-2024.

DEF’s currently approved total residential charge for the first 1,000 kWh of usage for May 2024 is \$160.58. If the Company’s mid-course correction is approved, then the current total residential charge for the first 1,000 kWh of usage beginning in June will be \$154.68, a decrease of 3.7 percent. For non-residential customers, DEF reported that bill decreases based on average levels of usage for small-size commercial customers would be 3.6 percent, 4.5 percent for medium-size commercial customers, 4.8 percent for large-size commercial customers, and 7.0 percent for industrial customers.<sup>25</sup>

***Optional Period***

Staff investigated the effect on monthly bills of shortening the period proposed for developing rates from 12 to 7 months. For rate-setting purposes, the total base over-recovery is the same under the 7-month and 12-month scenarios; however, the impact of the 7-month scenario can be characterized as a greater reduction in the monthly fuel charge over a shorter period of time.

Table 1-2 below shows the bill impact to a residential customer using 1,000 kWh of electricity a month associated with this optional period scenario described in this section of the recommendation.

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<sup>25</sup>Document No. 01787-2024.

**Table 1-2  
 Duke Energy Florida, LLC  
 Optional Monthly Residential Billing Detail for the First 1,000 kWh**

<b>Invoice Component</b>	<b>Currently Approved Charges May 2024 (\$)</b>	<b>Optional Charges Beginning June 2024 (\$)</b>	<b>Difference (\$)</b>	<b>Difference (%)</b>
Base Charge	\$81.19	\$81.19	\$0.00	0.0%
Fuel Charge	49.47	39.86	(9.61)	(19.4%)
Capacity Charge	9.46	9.46	0.00	0.0%
Conservation Charge	3.30	3.30	0.00	0.0%
Environmental Charge	0.46	0.46	0.00	0.0%
Storm Protection Plan Charge	5.10	5.10	0.00	0.0%
Storm Restoration Surcharge	5.09	5.09	0.00	0.0%
Asset Securitization Charge	<u>2.36</u>	<u>2.36</u>	<u>0.00</u>	0.0%
Gross Receipts Tax	<u>4.15</u>	<u>3.90</u>	<u>(0.25)</u>	(6.0%)
<b>Total</b>	<u>\$160.58</u>	<u>\$150.72</u>	<u>(\$9.86)</u>	(6.1%)

Source: Document No. 01787-2024.

DEF’s proposed fuel charge decrease results in a residential charge for the first 1,000 kWh of energy sales of 4.372 cents per kWh. This factor produces a corresponding monthly fuel charge of \$43.72. With respect to the optional period scenario, the associated residential factor would be 3.986 cents per kWh.<sup>26</sup> This would result in a fuel charge of \$39.86 for the first 1,000 kWh of energy usage. The estimated decrease in the monthly first-tier residential fuel charge under this scenario is approximately \$9.61 (opposed to the as-filed proposal of \$5.75), or going from \$43.72 to \$39.86. In percentage terms, the total bill decrease would be approximately 6.1 percent under the optional period scenario.

For non-residential customers, based on average levels of usage and specific rate schedules, DEF reported that bill decreases for small-size commercial customers would be 5.8 percent, 7.2 percent for medium-size commercial customers, 7.6 percent for large-size commercial customers, and 11.3 percent for industrial customers.<sup>27</sup>

The hypothetical tariff associated with this optional period scenario was provided in response to Staff’s First Data Request (Response No. 10).<sup>28</sup> However, the tariff was not included as an attachment to this recommendation.

**Summary**

DEF’s MCC Petition indicates a need for its fuel cost recovery factors to be revised. More specifically, the Company’s underlying 2024 projected fuel-related revenue requirement has

<sup>26</sup>Id.

<sup>27</sup>Id.

<sup>28</sup>Id.

been reduced by \$252,698,582. Additionally, the Company proposes to incorporate its 2023 period-specific final under-recovery of (\$19,202,150) into the current period. Thus, DEF's current fuel cost recovery factors should be reduced by \$233,496,431. Sales from June 2024 through May 2025 should be used to develop the revised/mid-course correction fuel factors. The revised fuel cost recovery factors associated with staff's recommendation are shown on Appendix A.

**Conclusion**

Staff recommends the Commission authorize adjustments to DEF's fuel cost recovery factors for the purpose of incorporating the Company's currently projected 2024 net fuel cost reduction. Accordingly, DEF's 2024 fuel cost recovery factors should be reduced by \$233,496,431.



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

**Recommendation:** The fuel cost recovery factors, as shown on Appendix A, should become effective with the first billing cycle of June 2024. (P. Kelley, Hampson, Brownless, Sandy)

**Staff Analysis:** 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 factors on a case-by-case basis. The Commission has approved rate decreases to be effective less than 30 days after the date of the Commission vote because the rate decrease was in the customers' best interest to be implemented as soon as possible.<sup>29</sup> In its MCC Petition, DEF proposes to decrease its 2024 fuel factors beginning with the first billing cycle of June 2024.

In response to Staff's First Data Request, DEF indicated that it would provide a message on June customer bills that will include a link to the Company's website explaining the proposed rate decrease.<sup>30</sup> Further, on April 8, 2024, an email notification was sent to large account customers explaining the proposal. A press release was also issued by the Company on that same day informing its customers and general public of the potential adjustments related to the mid-course correction proposal.<sup>31</sup>

### **Conclusion**

Staff recommends that the fuel cost recovery factors, as shown on Appendix A, become effective with the first billing cycle of June 2024.

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<sup>29</sup>Order No. PSC-2024-0091-PCO-EI, issued April 10, 2024, in Docket No. 20240001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*.

<sup>30</sup>Document No. 01787-2024.

<sup>31</sup>*Id.*

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

**Recommendation:** No. The 20240001-EI docket is an on-going proceeding and should remain open. (Brownless, Sandy)

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



SECTION NO. VI  
 ONE HUNDRED AND ~~FOURTH~~<sup>FIFTH</sup> REVISED SHEET NO. 6.105  
 CANCELS ONE HUNDRED AND ~~THIRD~~<sup>FOURTH</sup> REVISED SHEET

NO. 6.105

RATE SCHEDULE BA-1  
 BILLING ADJUSTMENTS

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>		SPPCRC <sup>(5)</sup>		SCRS <sup>(7)</sup>
	¢/ kWh	\$/ kW	¢/ kWh	\$/ kW	¢/ kWh	¢/ kWh	¢/ kWh	\$/ kW	¢/ kWh
RS-1, RST-1, RSL-1, RSL-2 (Sec.) < 1000 > 1000	0.330	-	0.946	-	0.046	0.236	0.510	-	0.509
GS-1, GST-1 Secondary	0.290	-	0.816	-	0.044	0.204	0.494	-	0.443
Primary	0.287	-	0.808	-	0.044	0.202	0.489	-	0.439
Transmission	0.284	-	0.800	-	0.043	0.200	0.484	-	0.434
GS-2 (Sec.)	0.227	-	0.597	-	0.042	0.141	0.231	-	0.221
GSD-1, GSDT-1, SS-1*									
Secondary	-	0.93	-	2.53	0.043	0.176	-	1.34	0.329
Primary	-	0.92	-	2.50	0.043	0.174	-	1.31	0.326
Transmission	-	0.91	-	2.48	0.042	0.172	-	0.25	0.322
CS-2, CST-2, CS-3, CST-3, SS-3*									
Secondary	-	0.79	-	2.05	0.041	0.120	-	2.11	0.329
Primary	-	0.78	-	2.03	0.041	0.119	-	2.09	0.326
Transmission	-	0.77	-	2.01	0.040	0.118	-	2.07	0.322
IS-2, IST-2, SS-2*									
Secondary	-	0.76	-	1.99	0.041	0.143	-	1.02	0.161
Primary	-	0.75	-	1.97	0.041	0.142	-	0.83	0.159
Transmission	-	0.74	-	1.95	0.040	0.140	-	0.19	0.158
LS-1 (Sec.)	0.117	-	0.237	-	0.037	0.056	0.373	-	0.422
*SS-1, SS-2, SS-3 Monthly									
Secondary	-	0.090	-	0.244	-	-	-	0.119	-
Primary	-	0.089	-	0.242	-	-	-	0.118	-
Transmission	-	0.088	-	0.239	-	-	-	0.117	-
Daily									
Secondary	-	0.043	-	0.116	-	-	-	0.057	-
Primary	-	0.043	-	0.115	-	-	-	0.056	-
Transmission	-	0.042	-	0.114	-	-	-	0.056	-
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	Super-Off-Peak
	¢/ kWh	¢/ kWh	¢/ kWh	¢/ kWh
RS-1 Only < 1,000	4,9474.372	N/A	N/A	N/A
RS-1 Only > 1,000	8,0175.442	N/A	N/A	N/A
LS-1 Only Secondary	4,8904.343	N/A	N/A	N/A
All Other Rate Schedules Secondary	5,2474.670	6,7065.968	5,2944.703	3,7283.325
All Other Rate Schedules Primary	5,4064.623	6,8995.808	5,2344.655	3,6003.292
All Other Rate Schedules Transmission	5,1424.577	6,6745.849	5,1794.609	3,6843.259

(Continued on Page No. 2)

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

EFFECTIVE: ~~March 1, 2024~~ June 1, 2024