

State of Florida



## Public Service Commission

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**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** March 15, 2007

**TO:** Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Lester, Matlock, McNulty)  
Office of the General Counsel (Bennett, Young)

**RE:** Docket No. 070001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

**AGENDA:** 03/27/07 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Carter

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\070001.RCM.DOC

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### Case Background

Docket No. 060001-EI included the following issues:

- (1) Issue 12: What is the appropriate methodology for calculating over and under recoveries of projected fuel costs, pursuant to Commission Order Nos. 13694 and PSC-98-0691-FOF-PU?, and
- (2) Issue 13: At what point in time should a utility notify the Commission that an over- or under recovery exceeds 10% of the projected fuel costs?

These issues are numbered Issue 1 and Issue 2, respectively, in this recommendation. Staff has met twice with representatives of the investor-owned utilities (IOU's) and representatives of the Office of Public Council to discuss the issues and their solution. Although Issues 1 and 2 and the following orders address fuel-cost recovery, in the past, the IOU's have extended their over/under recovery calculation procedures and reporting procedures to capacity-cost recovery.

Order No. 13694<sup>1</sup> states the following regarding IOUs' over/under recoveries of projected fuel costs.

“For any six month fuel recovery period, no interest will be allowed for that portion of an underrecovery in excess of 10% of total jurisdictional fuel expense for that period unless the utility complies with the mid-course correction procedure. Each utility has the responsibility to request a mid-course correction to ensure that over- or underrecoveries are less than 10%. In light of certain timing considerations, a utility may choose, in lieu of requesting a hearing, to inform the Commission, the Staff, and the intervenors that a greater than ten percent over- or underrecovery is projected to occur. In that event, the Staff or an intervenor could request that a hearing be held, and the Commission could order a hearing on its own motion or in response to a Staff or intervenor request. There will be no limitation on interest expense for overrecoveries.

In order to make our position clear on mid-course corrections, we add the following:

1. When a utility becomes aware that its projected fuel revenues, applicable to a given six-month recovery period, will result in an over- or underrecovery in excess of 10% of its projected fuel costs for the period, the utility shall so advise the Commission through a filing promptly made. Failure to comply with this requirement will result in the disallowance of interest on that portion of any underrecovery in excess of 10%.
2. A utility's filing pursuant to No. 1 above shall also include a request for a hearing to revise the fuel adjustment factor if in its judgment such revision would not be impractical.
3. In any event, any party may request or the Commission may order that a hearing be held to consider a revision of the utility's fuel adjustment factor.”

The Commission issued Order No. 13694 in 1984, when cost-recovery periods covered only six months. In 1998, the Commission changed the recovery-period length to 12 months. At

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<sup>1</sup> Order No. 13694, issued September 20, 1984, Docket No. 840001-EI, In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor.

that time, the Commission issued Order No. PSC-98-0691-FOF-PU<sup>2</sup> which contained the following regarding its mid-course correction policy.

“As stated in Order No. 13694, when a utility becomes aware that its actual fuel costs are ten percent greater than or less than its projected fuel costs during a recovery period, that utility shall advise this Commission through a prompt filing. If the utility fails to advise us, we will disallow the interest on that portion of the under-recovery in excess of ten percent. The utility shall also request a hearing to adjust its fuel clause factor unless the utility believes that such an adjustment is impractical due to magnitude and/or timing of the over-recovery or under-recovery. In any event, any party may request a hearing or we may order a hearing to consider a change in the utility’s fuel clause factor.”

Since the fuel-price increases in early 2001 and early 2003, staff has paid attention to how fuel-price estimates affect the IOU’s cost-recovery factors and to how deviations of actual prices from estimated prices can disrupt fuel-cost recovery. Staff raised Issues 1 and 2 during the 2006 fuel-hearing discovery period.

This Commission has jurisdiction pursuant to Sections 366.04, 366.041, and 366.05, Florida Statutes.

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<sup>2</sup> Order No. PSC-98-0691-FOF-PU, issued May 19, 1998, Docket No. 980269-PU, In re: Consideration of change in frequency and timing of hearings.

### Discussion of Issues

**Issue 1:** What is the appropriate methodology for calculating over and under recoveries of projected fuel cost, pursuant to Commission Order Nos. 13694 and PSC-98-0691-FOF-PU?

**Recommendation:** To ensure consistency in the electric utilities' interpretation of Commission Order Nos. 13694 and PSC-98-0691-FOF-PU on a prospective basis commencing June 1, 2007, the appropriate method to determine whether actual fuel costs are ten percent greater than or less than projected fuel costs is to divide the estimated End-of-Period Total Net True-up by the current period's total actual and estimated Jurisdictional Fuel Revenue Applicable-to-Period.

The estimated End-of-Period Total Net True-up represents the utilities' best estimate, using the most current projections, of what the actual balance will be on Schedule A-2 – Calculation of True-up and Interest Provision, Line C11, at the end of the current period less any previous periods' true-ups for which recovery has been deferred, by order, until after the current recovery period. The current period's total actual Jurisdictional Fuel Revenue Applicable-to-Period should be consistent with the amount reported in the Period-to-Date column on Schedule A-2, Line C3, and the estimated amount of Jurisdictional Fuel Revenue Applicable-to-Period should represent the most current projection of those amounts for future months in the current period.

The above line numbers and amount titles are from the monthly Fuel and Purchased Power Cost Recovery filings, for Fuel and Purchased Power Cost Recovery. The appropriate method to determine whether actual capacity costs are ten percent greater than or less than projected capacity costs is to make a similar percent calculation using up-to-date Capacity Cost Recovery revenue and true-ups. (Matlock)

**Staff Analysis:** The previous mid-course correction orders discuss "costs" and Order No. PSC-98-0691-FOF-PU specifies that the over/under recovery percent is to be a percent difference of the following form (Equation #1). Order No. 13694 specified that the over/under recovery be expressed as a percent of actual fuel costs.

Equation #1 – Form of the Over/Under Recovery Percent Calculation Specified in Order No. PSC-98-0691-FOF-PU

$$\begin{aligned} \text{Over/Under Recovery Percent} &= \frac{\text{Projected Fuel Costs} - \text{Actual Fuel Costs}}{\text{Projected Fuel Costs}} * 100 \\ &= \left[ 1 - \frac{\text{Actual Fuel Costs}}{\text{Projected Fuel Costs}} \right] * 100 \end{aligned}$$

The IOU's recover fuel costs through revenues and incur fuel costs as expenses. Attachment A contains *pro forma* copies of (1) Schedule A-2 - Calculation of True-up and Interest Provision and (2) Schedule E-1 - Fuel and Purchased Power Clause Cost Recovery Calculation. The IOU's report revenues and expenses pertinent to calculating over/under recovery percents on *de facto* A-2 and E-1 schedules.

For projected and actual costs to define over/under recoveries, “projected fuel costs” must be revenues and “actual fuel costs” must be expenses. Staff and the parties agree that Equation #1’s “projected fuel costs minus actual fuel costs” should include all revenues collected and expenses incurred at the end of the current recovery period. Staff and the parties further agree that “projected fuel costs” should equal the current recovery period’s revenues. According to this agreement, the way to carry out Order Nos. 13694 and PSC-98-0691-FOF-PU is to calculate over/under recovery percents according to Equation #2. Staff recommends the use of estimated End-of-Period Total Net True-up as a percent of estimated Jurisdictional Fuel Revenue Applicable-to-Period as the fuel-cost over/under recovery percent.

Equation #2 – Recommended Over/Under Recovery Percent Calculation

$$\text{Over/Under Recovery Percent} = \frac{\text{Estimated End - of - Period Total Net True - up}}{\text{Estimated Jurisdictional Fuel Revenue Applicable - to - Period}} * 100$$

$$= \frac{\text{Difference Between Estimated and Actual Prior - Period Net True - ups,} \\ \text{Plus Estimated Current - Period Monthly Over/Under Recoveries,} \\ \text{Plus Estimated Current - Period Interest}}{\text{Estimated Jurisdictional Fuel Revenue Applicable - to - Period}} * 100$$

Equation #2 expresses the percent calculation using only an estimated period total and an estimated period-end balance. The total and the balance are comparable to Schedule A-2 dollar amounts. The current-period revenues, expenses, and interest in Equation #2 consist of actual dollar amounts, which become available each month, plus estimated amounts for the period’s remaining months. At any time, revised estimates may replace the remaining months’ current estimates.

The Fuel and Purchased Power Cost Recovery Docket encompasses capacity-cost recovery. Although the utilities do not file capacity-cost revenues and expenses on a monthly basis, they recover capacity costs in the same way that they recover fuel and purchased power costs. Annual capacity-cost recovery true-up filings, estimated/actual filings, and projected-estimate filings mirror the annual Fuel and Purchased Power Cost Recovery filings made for the same purposes.

Staff and the parties agree that the IOU’s can readily identify the current-period capacity-cost recovery dollar amounts corresponding to fuel’s End-of-Period Total Net True-up and Jurisdictional Fuel Revenue Applicable-to-Period. Therefore, staff recommends the use of estimated End-of-Period Total Net True-up as a percent of estimated Jurisdictional Capacity Cost Applicable-to-Period as the capacity-cost over/under recovery percent.

**Issue 2:** At what point in time should a utility notify the Commission that an over- or under recovery exceeds 10% of the projected fuel costs?

**Recommendation:** Any time the absolute value of the percentage calculated in Issue 1, for Fuel and Purchased Power Cost Recovery or for Capacity Cost Recovery, is ten percent or greater, the utility should notify the Commission. (Matlock)

**Staff Analysis:** As an IOU notifies the Commission of a ten-percent estimated over/under recovery, the notification includes one of two things. The IOU may petition for cost-recovery factor correction. Alternatively, the IOU may explain why it does not believe a mid-course correction is practical. In determining whether a mid-course correction is practical, an IOU considers such things as the potential correction's estimated magnitude and the correction's timing. An IOU may also consider possible offsets between fuel- and capacity-cost over/under recoveries. With or without offsets between the fuel- and capacity-cost over/under recoveries, the Commission will require notice of a plus-or-minus ten percent estimated over/under recovery for either clause.

Cost-recovery periods currently coincide with calendar years. A ten-percent over/under recovery may arise between the fuel hearing (early November) and the end of the year. After the hearing, the Commission could not implement a correction before January. Therefore, the way to address such an over/under recovery would be to consider the effect on the coming year's over/under recovery percent. The End-of-Period Total Net True-up includes the difference between estimated and actual Prior-Period True-ups. With this inclusion, in January or February, a mid-course correction caused entirely by that prior-period difference would be possible. If between the fuel hearing and the end of the year, an IOU becomes aware of an over/under recovery that would cause the coming year's over/under recovery percent to be outside the plus-or-minus ten-percent range, it should notify the Commission promptly.

Staff recommends, and the parties agree, that the IOU's be required to notify the Commission any time the absolute value of the percent calculated in Issue 1, for either clause, is ten percent or greater.

Docket No. 070001-EI

Date: March 15, 2007

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

**Recommendation**: If no timely protest is filed by a person whose substantial interests are affected, the Order will become final upon issuance of a Consummating Order. However, this docket is an ongoing docket and it should remain open. (Bennett)

**Staff Analysis**: If no timely protest is filed by a person whose substantial interests are affected, the Order will become final upon issuance of a Consummating Order. However, the fuel and purchased power cost recovery docket is an ongoing docket and should remain open.