

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: March 5, 2009

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Lester, Draper, Giles, Laux, Matlock, Roberts, Maurey)
Office of the General Counsel (Bennett, Hartman, Saylor)
Office of Strategic Analysis and Governmental Affairs (Ellis)

RE: Docket No. 090001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

AGENDA: 03/17/09 – Regular Agenda – Issues 1 and 3 - Participation is at the Commission’s discretion; Issues 2, Deferral of Collection of Nuclear Costs and Issue 4 – PAA - Interested parties may participate.

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: McMurrian

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090001.PEF1.RCM.DOC

Case Background

On February 18, 2009, Progress Energy Florida, Inc. (PEF or Company) filed its Petition for Expedited Approval of Modifications to PEF’s Tariff Sheet 6.105 For a Reduction to Fuel and Capacity Cost Recovery Factors (mid-course petition). The petition is based on the outlook for fuel prices as of January 12, 2009, and on deferring recovery of certain nuclear preconstruction costs included in the capacity clause. Issue 1 addresses PEF’s request for a mid-course correction to fuel factors, and Issue 2 addresses the company’s request for a deferral of the recovery of nuclear preconstruction costs resulting in a change to this year’s capacity factors.

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The company is requesting a decrease in its fuel and capacity factors starting with the first billing cycle in April 2009. On February 25, 2009, PEF filed modifications to its petition regarding the deferral of nuclear costs. The Commission has jurisdiction over this subject matter pursuant to the provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, 366.06, and 366.93, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve PEF's petition for a mid-course correction to its 2009 fuel and purchased power cost recovery factors?

Recommendation: Yes. The new factors are shown on Attachment A. (Lester, Matlock, Giles)

Staff Analysis: PEF based its original 2009 fuel cost projections on the outlook for fuel prices as of September 22, 2008. Since then, natural gas and fuel oil prices have trended downward. For example, as of September 22, 2008, the average for natural gas futures prices for April through December of 2009 was \$8.58 per million Btus (MMBtu). As of January 12, 2009, the date of the fuel price projections underlying PEF's mid-course petition, the average price for that period was \$6.08 per MMBtu. This reflects a 29.17 percent reduction in gas prices since September 2008. Fuel oil prices and spot coal prices also have trended downward since PEF's original projections.

In its mid-course petition filing, PEF reprojected costs for each fuel type, purchased power, and power sold. PEF also reduced 2009 estimated sales from 40,687,467 to 38,340,264 megawatt hours (MWH). Table 1 below details the over-recovery, which would result from continuing to use the current factors, by source of kilowatt-hour (kWh) sales.

TABLE 1 - ESTIMATED OVER-RECOVERY AND UNDER-RECOVERY BY SOURCE OF KILOWATT-HOUR SALES IN 2009		
1	Coal	\$18,166,620
2	Residual Oil	7,375,709
3	Distillate Oil	22,465,286
4	Natural Gas	149,878,024
5	Nuclear Fuel	(2,185,732)
6	Non-fuel Generation	109,773
7	Power Sold	7,674,729
8	Purchased Power	40,974,020
9	Qualifying Facilities	(35,055,398)
10	Economy Energy	16,339,931
11	Unbilled Sales, T&D Losses, and Company Use	0
12	Wholesale kWh Sales	(9,966,955)
13	Jurisdictional kWh Sales	215,776,007
14	Revenue Taxes	1,726,049
15	Revenue Adjustment for Rate Class Consumption	(4,254,374)
16	Unrefunded True-up and GPIF for 2009	(8,556,535)
17	Total 2009 Estimated Over Recovery	\$204,691,147

PEF estimates that its current fuel factors will cause an over-recovery of \$204,691,147. This amount combines with the 2008 final true-up, \$870,658, and the 2009 interest estimate, \$132,179, for a 2009 true-up estimate of \$205,693,984. The over-recovery percentage is 8.64 percent, which is less than the 10 percent threshold specified in Order No. PSC-07-0333-PAA-EI, issued April 16, 2007, in Docket No. 070001-EI, In re: Fuel and purchased power cost

recovery clause with generating performance incentive factor. If a company reaches the 10 percent threshold, the order requires the company to provide notice to the Commission.

The primary reason for the estimated over-recovery is the decline in natural gas prices. Secondary reasons are the declines in coal and fuel oil prices. In general, the prices of fossil fuels have declined since the fall of 2008 due to the worldwide economic downturn. Natural gas and fuel oil generation comprise 47.2 percent and 5.4 percent, respectively, of PEF's projected 2009 system kWh sales. In addition, PEF's purchased power is based on coal-fired and gas-fired generation. PEF's fuel cost projections for 2009 include fuel price hedging positions.

Based on PEF's proposed mid-course correction to fuel factors, the fuel component of the residential 1,000 kWh bill will decrease by \$6.90. The effect on residential bills is detailed on Attachment B.

Mid-course corrections are part of the fuel proceeding. These proceedings are considered preliminary procedural decisions. The Commission takes testimony regarding those costs in its November hearing. Any over or under-recoveries caused by or resulting from the new factor adopted by the mid-course correction may be included in the following year's fuel factor. The Commission's jurisdiction to consider fuel clause proceedings derives from its authority to set fair and reasonable rates, Section 366.05, Florida Statutes.

Conclusion

Staff recommends that the Commission approve PEF's petition for a mid-course correction to its fuel factors. Staff has reviewed PEF's fuel cost projections and calculations of fuel factors and believes these calculations are reasonable. The new projections are an appropriate reflection of the current outlook for fuel prices. Staff believes timely correction of a large under-recovery or over-recovery is fair and reasonable. The result should be more accurate fuel factors and a smaller end-of-period true-up.

Staff will continue to monitor the fuel price outlook for 2009 and will continue to conduct discovery on the actual and estimated expenditures of PEF. Staff will conduct a thorough review of costs in preparation for the November 2009 fuel hearing. The costs are subject to further review in the ongoing fuel docket.

Issue 2: Should the commission approve PEF's petition for a change to its 2009 capacity factors?

Recommendation: Yes. PEF will reduce capacity factors by revising tariff sheet 6.105. The new factors are shown on Attachment A. (Laux, Lester)

Staff Analysis: PEF's petition, as corrected on February 25, 2009, requests that the Commission approve a deferred recovery of \$198 million of charges that were approved for recovery in the Capacity Cost Recovery Clause (CCRC) by Order No. PSC-08-0824-FOF-EI, issued on December 22, 2008.¹ PEF requests approval of revised CCRC factors in time for use in calculating customer bills during the next available billing cycle. The deferred recovery amount will accrue the 30-day commercial paper rate. Approval of PEF's petition results in a \$7.80 reduction, at the 1,000 kWh usage level, for residential customers for the remainder of 2009.

If some other form of alternative recovery does not become available through legislative action during the current legislative session, PEF anticipates that the deferred amount will be included for recovery in 2010. If 2010 recovery becomes necessary, an estimated \$6.75 incremental increase in residential customer bills, at the 1,000 kWh usage level, would result. This increase would be in addition to any other cost recovery approved by the Commission for 2009/2010 recoverable nuclear construction activities.

PEF believes that the requested deferred recovery is in the best interest of their customers due to current general economic conditions. In addition, the petition recognizes that potential alternate cost recovery options are under discussion in the Florida Legislature. These discussions may result in new or different ways nuclear construction cost could be recovered from customers.

Staff believes that PEF's petition for deferred recovery should be approved for the following reasons: (1) PEF's request will provide a level of immediate rate relief to all affected customer classes during the remainder of 2009; (2) PEF's petition is consistent with Commission practice concerning over and under recovery in the CCRC; and (3) approval of the request will allow the utility the opportunity to take full advantage of any new options created by the Florida Legislature.

Conclusion

Staff recommends that the Commission approve PEF's petition, as corrected on February 25, 2009, to reduce its CCRC factors for 2009, and defer recovery of \$198 million.

¹ See Docket No. 080001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

Issue 3: If the Commission approves PEF's petition for a mid-course correction, when should the new fuel and purchased power cost recovery factors and the new capacity factors become effective?

Recommendation: If the Commission approves staff's recommendation on Issues 1 and 2, the revised fuel and capacity factors should become effective with the first billing cycle in April 2009. (Roberts, Draper)

Staff Analysis: PEF has requested that the revised fuel and capacity factors become effective with the first billing cycle in April 2009. PEF has issued a press release informing the public of its request for a mid-course correction and will also notify its customers through an insert to be included in customer bills sent in April.

Staff believes that PEF's proposed effective date and plan to notify its customers are appropriate and should therefore be approved.

Issue 4: Should the Commission release PEF from the requirement of Order No. PSC-08-0824-FOF-EI that it files a report showing the effect of projected fuel prices on its end-of-period true-up by March 13, 2009?

Recommendation: Yes. (Lester, Matlock)

Staff Analysis: By Order No. PSC-08-0824-FOF-EI, the Commission required PEF to file a report on March 13, 2009, stating the effect the fuel price outlook as of February 27, 2009, has on the fuel factor and end of period true-up. (See page 13 of Order No. PSC-08-0824-FOF-EI, issued December 22, 2008 in Docket No. 080001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor). The report would be Schedule E1-B, based on actual experience through February and projected fuel costs and revenues for the remaining months of 2009. In paragraph 10 of its petition, PEF requests that the Commission consider its petition and attachments as satisfying the requirement. The petition contained a Schedule E1-B with actual results for January and estimates for the remaining months in 2009 based on the fuel price outlook as of January 12, 2009.

For Issue 1, staff is recommending that the Commission approve PEF's petition for a mid-course correction to its fuel factors. The purpose of the March 13 report was to monitor the downward trend in fuel prices. This trend is essentially addressed in Issue 1.

While natural gas and fuel oil prices have declined somewhat since January 12, 2009, staff notes that fuel prices are volatile. Staff will continue to monitor the trend and outlook for fuel prices. Further, the company must report an over-recovery or under-recovery that is greater than 10 percent of its fuel revenues. Therefore, the March 13, 2009, report is unnecessary and the Commission should release PEF from the requirement.

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Issue 5: Should this docket be closed?

Recommendation: No. The Fuel and Purchased Power Cost Recovery Clause docket is an on-going docket and should remain open. (Bennett)

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

Proposed PEF Fuel Cost Recovery & Capacity Factors April-December 2009 ¢/ kWh				
Rate Schedule/Metering Level	Fuel Cost Recovery Factor			Capacity Factor
	Levelized	On-Peak	Off-Peak	
RS-1, RST-1, RSL-1, RSL-2, RSS-1 (Sec.) <1000 >1000	 5.600 6.600	8.015	4.948	 1.386
GS-1, GST-1 Secondary Primary Transmission	5.933 5.874 5.814	8.015 7.936 7.855	4.948 4.899 4.849	1.170 1.158 1.147
GS-2 (Sec)	5.933	-----	-----	0.801
GSD-1, GSDT-1, SS-1 Secondary Primary Transmission	5.933 5.874 5.814	8.015 7.936 7.855	4.948 4.899 4.849	0.988 0.978 0.968
CS-1, CST-1, CS-2, CS-3, CST-3, SS-3 Secondary Primary Transmission	5.933 5.874 5.814	8.015 7.936 7.855	4.948 4.899 4.849	0.718 0.711 0.704
IS-1, IST-1, IS-2, IST-2, SS-2 Secondary Primary Transmission	5.933 5.874 5.814	8.015 7.936 7.855	4.948 4.899 4.849	0.860 0.851 0.843
LS-1 (Sec.)	5.522	-----	-----	0.196
GSLM-1, GSLM-2	See appropriate General Service Rate schedule			

**Progress Energy Florida
 Fuel and Purchased Power Cost Recovery Clause
 Residential Bill Comparison**

	Approved	Requested	Difference	
	Jan 09-Mar 09 (\$/1000 KWH)	Apr 09-Dec 09 (\$/1000 KWH)	From Current \$	From Current %
Base Rates	\$43.95	\$43.95	\$0.00	0.00%
Fuel Cost Recovery	62.90	56.00	(6.90)	-10.97%
Capacity Cost Recovery	9.55	9.55	0.00	0.00%
Energy Conservation Cost Recovery	2.23	2.23	0.00	0.00%
Environmental Cost Recovery	3.68	3.68	0.00	0.00%
Nuclear CR3 Uprate	0.69	0.69	0.00	0.00%
Nuclear Levy	11.42	3.62	(7.80)	-68.30%
Subtotal	\$134.42	\$119.72	(\$14.70)	-10.94%
Gross Receipts Tax	3.45	3.07	(0.38)	-11.01%
Total Bill	\$137.87	\$122.79	(\$15.08)	-10.94%

Progress Energy Florida Total Residential Bill Comparison by kWh Usage				
Usage	Current Jan 09 - Mar 09	Proposed Apr 09 - Dec 09	Difference From Current	
			\$	%
1,000 kWh	\$137.87	\$122.79	(\$15.08)	-10.94%
1,200 kWh	\$167.90	\$149.81	(\$18.09)	-10.77%
1,500 kWh	\$212.94	\$190.33	(\$22.61)	-10.62%
2,000 kWh	\$288.01	\$257.86	(\$30.15)	-10.47%