

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 (Lee, Draper, Giles, Matlock, Roberts)
Office of the General Counsel (Bennett, Saylor, Young)

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

AGENDA: 03/17/09 – Regular Agenda – Participation at Commission’s Discretion

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: McMurrian

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090001.FPU1.RCM.DOC

Case Background

On February 12, 2009, Florida Public Utility Company (the Company or FPUC) filed a Petition for Approval of Mid-course Correction for its Northeast (Fernandina Beach) Division. Concurrently with its petition, FPUC also filed the testimony of Witness Mark Cutshaw in support of the Company’s proposed mid-course correction to its fuel and purchased power cost recovery factor (fuel factor). On February 25, 2009, FPUC amended its petition after revising the cost estimates. (See Staff Analysis for further discussion.) The current fuel factor was approved by Commission Order No. PSC-08-0824-FOF-EI, issued December 22, 2008, in Docket 080001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

FPUC requests the mid-course correction following the procedure of Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI and Docket No. 840003-GU, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor; In re: Purchased gas cost recovery clause, and Order No. PSC-98-0691-FOF-PU, issued May 19, 1998, in Docket No. 980269-PU, In re: Consideration of change in frequency and timing of hearing for the fuel and purchased power cost recovery clause, capacity cost recovery clause, generating performance incentive factor, energy conservation cost recovery clause, purchased gas adjustment (PGA) true-up, and environmental cost recovery clause, and Order No. PSC-07-0333-PAA-EI, issued April 16, 2007, in Docket No. 070001-EI.

Mid-course corrections are used by the Commission between fuel hearings whenever costs deviate from revenues by a significant margin. In Order No. 13694, the Commission established “a procedure by which the utilities would notify the Commission that their collections of projected fuel costs were going to be either over-recovered or under-recovered by 10%.” By Order No. 13694, the Commission made it a requirement that for any six-month recovery period, a utility must give the Commission a written notice when the utility becomes aware that its projected fuel revenues were either over or under recovered in excess of 10% of its projected fuel costs for the period.¹ Failing to do so would result in the Commission disallowing the utility to collect interest on any portion of the under-recovery in excess of 10%.

Mid-course corrections are part of the fuel and purchased power cost recovery clause (fuel clause) proceeding. They are considered preliminary procedural decisions. The Commission takes testimony regarding those costs in its November hearing. Any over-recoveries 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 the Commission’s authority to set fair and reasonable rates, found in Section 366.05, Florida Statutes. The fuel clause proceedings are exempted from the rulemaking provisions of Section 120.80(13)(a), Florida Statutes.

¹ At the time of Order No. 13694, fuel hearings were held every six months.

Discussion of Issues

Issue 1: Should the Commission approve FPUC's petition for mid-course corrections to its authorized fuel and purchased power cost recovery factors for the Northeast Division?

Recommendation: Yes. (Lee, Draper, Giles, Matlock, Roberts)

Staff Analysis: Because FPUC purchases all of its power from other suppliers, FPUC's fuel factors are based on the requirements of its purchased power agreements. JEA (formerly the Jacksonville Electric Authority) is the primary power supplier for FPUC's Northeast Division. In Docket No. 060001-EI, the Commission approved purchased power cost recovery for FPUC based on its purchased power contract with JEA (JEA Contract).²

The JEA Contract contains terms for energy and demand charges as well as the fuel costs. FPUC states in its petition that the reason for the change is an increase in fuel cost. The term "fuel cost" or "fuel factor" used here is an abbreviation of "fuel and purchased power cost (factor)," not the fuel cost charged by JEA. On January 15, 2009, FPUC received notification from JEA that the energy and demand charges will increase significantly effective March 1, 2009. The energy charge will increase from the current 0.3 cents per kilowatt hour (kWh) to the proposed 1.453 cents per kWh in March, while the demand charge will increase from the current \$7 per kW to the proposed \$10.07 per kW in March. These increases are based on JEA's 2007 cost of service study. The development of the study is specified in the JEA Contract. Section 3(d) of the JEA Contract provides that JEA can adjust its energy and demand charges based on the cost of service principles defined in the contract, beginning in January 1, 2009.

At an informal meeting on February 19, 2009, staff and parties questioned whether FPUC had adequate time and information to review JEA's rate increase. To ensure that JEA's charges were correct, FPUC needed to take all necessary actions pursuant to the contract terms. On February 24, 2009, FPUC reported that after further discussion with JEA, JEA had delayed the implementation of the new rates until April 1, 2009.

Because JEA delayed the implementation of the new rates, FPUC's Witness Cutshaw provided revised schedules on February 25, 2009. Without a mid-course correction, the Company projects a year-end under-recovery of \$2,160,471, as compared to the estimated \$2,671,081 under-recovery based on FPUC's original filing on February 12, 2009. The reduction reflects the benefit that JEA's energy and demand charges will remain at the current rate in March.

FPUC requested that the Commission approve its revised fuel factors beginning with its April billing cycles. Staff believes this is a timely correction and a delay in adjustment would increase the rate impact because there would be fewer months to correct the projected under-recovery in the current 2009 period. FPUC states that it is still conducting detailed analysis of JEA's data. Determination of whether FPUC has taken all necessary actions to ensure that JEA's charges are correct requires more thorough analysis. Consistent with Commission's practice,

² See Order No. PSC-06-1057-FOF-EI, issued on December 22, 2006, in Docket No. 060001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

staff believes this type of analysis should be conducted in the ongoing fuel docket, not in mid-course corrections.

Staff's review of the mid-course correction based on the revised estimates is summarized in Table 1, Table 2, and Table 3. For residential customers with usage ranging from 1,000 kWh to 2,000 kWh, the bill increase ranges from \$9.31 to \$18.62. At these usage levels, the bill impact to customers will be an increase of approximately 7.7 percent from the current period.

<u>Rate Schedule</u>	Current Fuel cost-recovery factor (c/kWh)	Proposed Fuel cost-recovery factor (c/kWh)
RS – First 1,000 kWh	8.697	9.605
RS – Above 1,000 kWh	9.697	10.605
GS	8.801	9.651
GSD	8.447	9.208
GSLD	8.502	9.275
OL	6.839	7.188
SL	6.841	7.191

1,000 kWh Usage	Actual Jan 09-Mar 09	Proposed Apr 09-Dec 09	Difference From Current	
			\$	%
Base Rates	\$31.58	\$31.58	\$0.00	0.00%
Purchased Power Cost Recovery Factor	\$86.97	\$96.05	\$9.08	10.44%
Conservation Factor	\$0.78	\$0.78	\$0.00	0.00%
Gross Receipts Tax	\$3.06	\$3.29	\$0.23	7.52%
Total	\$122.39	\$131.70	\$9.31	7.61%

Usage	Current Jan 09 - Mar 09	Proposed Apr 09 - Dec 09	Difference From Current	
			\$	%
1,000 kWh	\$122.39	\$131.70	\$9.31	7.61%
1,200 kWh	\$146.45	\$157.63	\$11.18	7.63%
1,500 kWh	\$182.56	\$196.53	\$13.97	7.65%
2,000 kWh	\$242.73	\$261.35	\$18.62	7.67%

The Commission considers whether to grant mid-course corrections based on its authority to set fair and reasonable rates. 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. The costs are subject to further review in the ongoing fuel docket and FPUC is still obligated to ensure that JEA's charges are correct based on the contract terms. In 2008, the Commission approved FPUC's request for a mid-course correction necessitated by a similar level of under-recovery.³ Consistent with that decision, staff recommends FPUC's instant petition be approved.

³ See Order No. PSC-08-0472-PCO-EI, Issued July 22, 2008, in Docket No. 080001, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

Issue 2: What is the appropriate effective date for FPUC's revised cost-recovery factors?

Recommendation: The revised fuel factors should be applied to meters read on or after March 27, 2009. (Draper, Roberts)

Staff Analysis: FPUC has requested that the revised fuel factor be applied to meters being read on or after March 27, 2009. FPUC notified its customers of its proposed mid-course correction on February 27, 2009, providing customers a 30-day notice that fuel factors may change beginning April 2009. Specifically, the notice included FPUC's proposed total under-recovery amount, the effective date of the proposed cost recovery factors, and the impact on a 1,000 kWh residential bill.

Providing customers with a 30-day notice period prior to implementing new fuel factors as a result of a midcourse correction is consistent with Commission's practice.⁴ Providing a 30-day notice allows customers the opportunity to adjust their usage in light of the new factors.

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

⁴ See Order No. PSC-07-0739-PCO-EI, issued September 17, 2007, in Docket No. 070001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

Docket No. 090001-EI

Date: March 5, 2009

Issue 3: Should this docket be closed?

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

Staff Analysis: The Fuel and Purchased Power Cost Recovery Clause docket is an ongoing docket should remain open.