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 26, 2009

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Lester, Giles, Matlock, Draper, Roberts)
Office of the General Counsel (Bennett, Sayler)

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

AGENDA: 04/07/09 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: McMurrian

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090001.TECO1.RCM.DOC

Case Background

On March 5, 2009, Tampa Electric Company (TECO or Company) filed a Petition for Modification to its Fuel and Purchased Power Cost Recovery Factors. The current fuel factors were 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.

TECO requests the mid-course correction to its fuel factors following the procedure established by 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

<u>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</u>, and Order No. PSC-07-00333-PAA-EI, issued April 16, 2007, in Docket No. 070001-EI.

The petition is based on the outlook for fuel prices as of February 9, 2009. The Company is requesting that the decrease in its fuel factors become effective on May 7, 2009.

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 written notice when the utility becomes aware that its projected fuel revenues were either over- or under-recovered in excess of 10 percent of its projected fuel costs for the period.[1] Failure to do so could result in the Commission disallowing the utility to collect interest on any portion of the under-recovery in excess of 10 percent.

Mid-course corrections are part of the fuel and purchased power cost recovery clause (fuel clause) proceeding. They are 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 it's authority to set fair and reasonable rates, 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 TECO's petition for mid-course corrections to its authorized fuel and purchased power cost recovery factors?

Recommendation: Yes. The Commission should approve the petition, with the modification recommended by staff that the final 2008 true-up of $35,402,527 should be included in the mid-course correction. (Giles, Lester, Matlock)

Staff Analysis: TECO based its original 2009 fuel cost projections on the outlook for fuel prices as of October 3, 2008. Since then, natural gas and fuel oil prices have trended downward. In its mid-course petition filing, TECO reprojected costs for each fuel type, purchased power, and power sold based on the fuel price outlook as of February 9, 2009. 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	$56,408,524
2	Residual Oil	(54,258)
3	Distillate Oil	6,699,330
4	Natural Gas	6,190,241
5	Nuclear Fuel	0
6	Non-fuel Generation	1,104
7	Power Sold	16,755,656
8	Purchased Power	24,610,932
9	Qualifying Facilities	25,214,323
10	Economy Energy	67,334,261
11	Unbilled Sales, T&D Losses, and Company Use	0
12	Wholesale kWh Sales	(9,588,526)
13	Jurisdictional kWh Sales	193,571,589
14	Revenue Adjustment for Rate Class Consumption	(1,898,517)
15	Unrefunded True-up and GPIF for 2009	(1,454,985)
16	Line Loss Correction	(198)
17	Total 2009 Estimated Over-Recovery	$190,217,890

TECO estimates that its current fuel factors will cause an over-recovery of $190,217,890. The over-recovery percentage is 18.84 percent, which is over 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. The decrease in natural gas prices lowers TECO's expected cost of generation and decreases reliance on purchased power. Based on TECO's proposed mid-course correction for fuel factors, the fuel component of the residential 1,000 kWh bill would decrease by $11.78.

In paragraph 10 of TECO's petition, TECO recommends the regulatory treatment of the 2008 over-recovery be deferred until 2010.

> While the revised projected filing represents the company's best estimates for the remainder of 2009, it also contains uncertainty on natural gas pricing and sales forecasts. As such, while the company's final 2008 true-up resulted in an over-recovery of $35,402,527, Tampa Electric is not proposing to include this amount in this reprojection. The company recommends that the over-recovery be included in the 2010 fuel adjustment factors to help mitigate these uncertainties. This approach is also consistent with past mid-course correction filings the company has made.

In past mid-course corrections, the Commission has deferred under-recoveries in fuel costs to a later period. This resulted in a lower immediate bill impact for customers, and these deferred amounts affected fuel factors in a subsequent period. In this instance, TECO is proposing to defer an over-recovery, which delays savings to customers.

Staff notes that the natural gas price outlook for the remainder of 2009 is low in comparison with the past few years. A reversal in gas prices could cause TECO to have an under-recovery in fuel costs for 2009, which would reflect on bills for 2010. TECO believes the $35,402,527 million over-recovery final 2008 true-up, if excluded from the mid-course calculation, could act as a buffer or "hedge" against a possible rebound in gas prices at some time during 2009.

As part of TECO's explanation for retaining the $35 million, TECO explained that the $35 million would act as a rate smoothing mechanism in 2010. TECO supplied estimates of under-recovery in other clauses. In TECO's 2008 final true-ups for the capacity cost recovery clause and the environmental cost recovery clause, TECO has under-recoveries of $8,525,166 and $8,112,993, respectively. This could lead to increases in the cost recovery factors for those clauses in 2010.

Staff is not aware of a case in which the Commission used an over-recovery in one clause to offset an under-recovery in another clause. However, in Order No. PSC-07-0333-PAA-EI, the Commission stated the following:

> The notification of a ten-percent estimated over- or under-recovery must include a petition for cost-recovery factor correction, or include an explanation why a mid-course correction is not practical. In determining whether a mid-course correction is practical, an IOU may consider 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, notice of a plus-or-minus ten percent estimated over- or under-recovery for either clause is required. (See Order No. PSC-07-0333-PAA-EI, issued April 16, 2007, <u>In re: Fuel and purchased power cost recovery clause with generating performance incentive factor, p. 5.</u>)

The above points favor TECO's treatment of the $35 million over-recovery from 2008, as filed in its petition. However, there are policy considerations that support including the $35 million over-recovery in the mid-course correction to 2009 fuel factors.

First, fuel costs are much more volatile than the costs in the capacity and environmental clauses. For example, natural gas prices were as high as $13 per million Btus (MMBtu) in July 2008 and currently are below $5 per MMBtu. The outlook, i.e., the forward curve of futures prices, for gas prices for 2009 has declined dramatically starting in August 2008. The $35 million final 2008 true-up is a certain amount. By including it in the mid-course correction, the Commission would recognize the significant shift in gas prices.

Second, regarding the use of the $35 million as a "hedge" against a turn around in gas prices, staff notes that TECO has an approved fuel price hedging program in place. Further, TECO reprojected its fuel costs as of February 9, 2009, and gas prices for the remainder of 2009 have continued to decline. This, in effect, is a partial built-in "hedge" against a rebound in gas prices.

Conclusion

Staff recommends that the Commission approve a mid-course correction to TECO's fuel factors, with the appropriate calculation of those factors including the $35 million 2008 final true-up for the fuel clause. The proposed factors are shown in Attachment A. The 2009 over-recovery of $190,217,890, combined with this 2008 final true-up of $35,402,527, and estimated interest of $591,581, totals $226,211,998. The total 2009 true-up estimate is 18.84 percent of TECO's estimated revenue applicable to 2009, $1,200,533,025. Based on staff's proposed mid-course correction for fuel factors, the fuel component of the residential 1,000 kWh bill would decrease by $16.17, or approximately 25 percent. The recommended effect on residential bills is detailed in Attachment B. Staff notes that the bill calculation includes the recommended charges as a result of Docket No. 080317-EI, TECO's rate case, which is also scheduled for the April 7, 2009, Agenda Conference. Table 2 below shows the calculations.

TABLE 2: TOTAL ESTIMATED 2009 TRUE-UP	
True-up Component	Amount
2008 Final True-up	$35,402,527
Estimated 2009 Over-Recovery	190,217,890
Estimated 2009 Interest	591,581
Total Estimated 2009 True-up	$226,211,998

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. It should result in more accurate fuel factors and a smaller December 2009 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 for TECO. Staff will conduct a thorough review of costs in preparation for the November 2009 fuel hearing.

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

Recommendation: The revised fuel factors should go into effect May 7, 2009. (Draper, Roberts)

Staff Analysis: TECO has requested that the revised fuel factors become effective May 7, 2009, concurrent with when the Company's base rates, energy conservation cost recovery, environmental cost recovery, and capacity cost recovery factors approved in Docket No. 080317-EI become effective. TECO will notify its customers through an insert of the changes to its fuel factors in the April customer bills.

Staff believes that TECO's proposed effective date is appropriate and should therefore be approved.

Issue 3: 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, Sayler)

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

Staff – Recommended fuel factors for the period May 7 – December 2009.

METERING VOLTAGE LEVEL	FACTOR (CENTS PER KWH)
Secondary Residential Only	
Tier I: First 1,000 kWh	4.799
Tier II: Amount Over 1,000 kWh	5.799
Secondary	5.149
Distribution Primary	5.098
Transmission	5.046
Lighting Service[1]	4.937
Distribution Secondary On-Peak	6.309
Distribution Secondary Off-Peak	4.655
Distribution Primary On-Peak	6.246
Distribution Primary Off-Peak	4.608
Transmission On-Peak	6.183
Transmission Off-Peak	4.562
[1]Lighting service is based on distribution secondary, 17 percent on-peak and 83 percent off-peak.	

Tampa Electric Company					
Residential Bill Comparison					
For Monthly Usage of 1,000 KWH					
	Current Jan 09 - Apr 09	Projected (excluding $35 million) May 09- Dec 09	Projected (including $35 million) May 09- Dec 09	Difference	
				$	%
Base Rate Revenue	$51.92	$53.37	$53.37	$1.45	3%
Fuel Recovery Revenue	64.16	50.52	47.99	(16.17)	-25%
Conservation Revenue	1.06	2.21	2.21	1.15	108%
Capacity Revenue	5.80	5.41	5.41	(0.39)	-7%
Environmental Revenue	2.29	2.23	2.23	(0.06)	-3%
Florida Gross Receipts Tax Revenue	3.21	2.92	2.85	(0.36)	-11%
TOTAL REVENUE	**$128.44**	**$116.66**	**$114.06**	**-$14.38**	**-11%**