**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**

**JUNE 13, 1996**

**TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)**

**FROM: DIVISION OF ELECTRIC & GAS (BASS, DRAPER, COLSON)**

**DIVISION OF LEGAL SERVICES (JOHNSON, ERSTLING)**

**RE: DOCKET NO. 960001-EI - FLORIDA POWER CORPORATION - FUEL AND PURCHASED POWER COST RECOVERY CLAUSE AND GENERATING PERFORMANCE INCENTIVE FACTOR**

**DOCKET NO. 960002-EG - FLORIDA POWER CORPORATION - ENERGY CONSERVATION COST RECOVERY CLAUSE**

**AGENDA: JUNE 25, 1996 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE**

**CRITICAL DATES: NONE**

**SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\960001EU.RCM**

**DISCUSSION OF ISSUES**

**ISSUE :** Should the Commission approve Florida Power Corporation's petition to increase its current fuel cost recovery factor from 1.887 cents/kWh to 2.148 cents/kWh?

**RECOMMENDATION:** Yes. The Commission should approve the increased fuel factor of 2.148 cents/kWh effective for customer bills beginning with Cycle 1 billings for the month of July, 1996 through September 30, 1996.

**STAFF ANALYSIS:** On May 30, 1996, Florida Power Corporation (FPC) filed a petition for adjustment to its currently authorized fuel and purchased power cost recovery factor for the period April 1996 through September 1996. The calculation of FPC's April through September fuel adjustment factor approved at the February hearings included a projected underrecovery of $5,915,935. Actual data now available through May, 1996 indicates an actual underrecovery of $60,552,461 million. Attempting to levelize the impact on overall rates over the remainder of the current period and the upcoming six-month period, FPC proposes to divide the actual underrecovery through May, 1996 by forecasted sales for the nine-month July 1996 through March 1997 period. The company expects this treatment to result in minimal rate changes between the July through September period and the October through March period.

The projected underrecovery is primarily the result of unseasonably cold weather in the months of January, February and March, 1996, compounded by oil prices approximately $2 per barrel higher than forecasted and a refueling outage at the Crystal River 3 nuclear unit that extended longer than forecasted.

We note that there has been no prudence review of FPC's fuel estimates and expenditures and we do not necessarily agree or disagree with FPC's figures at this time. However, one of the purposes of mid-course corrections as described in Commission Order No. 13694 is to assure a levelized fuel adjustment and avoid rate shock ratepayers experience when factors are adjusted. It is, therefore, in the best interest of the ratepayers to approve the mid-course correction without the prudence review which will take place during subsequent fuel adjustment hearings.

Staff has reviewed the factors derived for FPC's various delivery voltage levels and we have found them to be calculated using the same methods that have been accepted in the past. Attachment A of this recommendation reflects the levelized factors for each delivery voltage level and compares bills for 1,000 kWh of residential consumption before and after this fuel factor adjustment.

FPC has requested an effective date beginning with Cycle 1 billings for the month of July, 1996. Although this effective date falls short of the normal 30-day notice requirement, staff believes that such treatment is warranted given the magnitude of the projected underrecovery. Staff believes that FPC's customers should begin paying the fuel cost underrecovery at the earliest practicable time. Based on the foregoing, staff recommends that the Commission approve FPC's increased fuel adjustment factor of 2.148 cents/kWh.

**ISSUE :** Should the Commission approve Florida Power Corporation's petition to reduce its current energy conservation cost recovery factor from .295 cents/kWh to .138 cents/kWh?

**RECOMMENDATION:** Yes. The Commission should approve the decreased energy conservation cost recovery factor of .138 cents/kWh effective for residential customer bills beginning with Cycle 1 billings for the month of July, 1996 through March, 1997.

**STAFF ANALYSIS:** In its petition, FPC proposes to mitigate the increase in fuel cost for its residential customers by refunding the actual May revenue decoupling balance of $18,413,224, including interest, during the July 1996 through March 1997 period. This amount normally would be credited to customer billings through the Energy Conservation Cost Recovery clause in April 1997. Attachment B provides the calculations that result in the new energy conservation cost recovery factor of .138 cents/kWh.

Staff believes the refund of revenue decoupling dollars will help to mitigate the increase in fuel costs for FPC's residential customers. FPC has requested an effective date beginning with Cycle 1 billings for the month of July, 1996. Although this effective date falls short of the normal 30-day notice requirement, staff believes that such treatment is warranted. Staff believes that FPC's customers should begin receiving the revenue decoupling refund at the earliest practicable time. Based on the foregoing, Staff recommends that FPC's decreased energy conservation cost recovery factor of .138 cents/kWh should be approved. Since energy conservation cost recovery factors are set once a year, the reduced factor will be in effect through March, 1997.

**ISSUE 3:** Should these Dockets be closed?

**RECOMMENDATION:** No. The Fuel and Purchased Power Cost Recovery Clause (Docket No. 960001-EI) and the Energy Conservation Cost Recovery Clause (Docket No. 960002-EG) should remain open. If Issues 1 and 2 are approved, this tariff should become effective beginning with Cycle 1 billings for the month of July, 1996. If a protest is filed within 21 days of the issuance of the Order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest.

**STAFF ANALYSIS:** The Fuel and Purchased Power Cost Recovery Clause and the Energy Conservation Cost Recovery Clause are on-going dockets and should remain open.