**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)**

 **DIVISION OF LEGAL SERVICES (JOHNSON)**

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

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

**CRITICAL DATES: NONE**

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

 **DISCUSSION OF ISSUES**

**ISSUE :** Should the Commission grant Florida Power and Light Company's petition for an increase in its levelized fuel adjustment factor from 2.071 cents per kWh to 2.201 cents per kWh effective with customer billings on cycle day 3 of July 1996?

**RECOMMENDATION:** Yes. The Commission should approve the increased fuel factor of 2.201 cents per kWh effective with customer billings on cycle day 3 of July 1996 through September, 1996.

**STAFF ANALYSIS:** On May 31, 1996, Florida Power and Light Company (FPL) filed a petition for approval of a mid-course correction to its currently authorized levelized fuel adjustment factor for the period April, 1996 through September, 1996. The calculation of FPL's April through September fuel adjustment factor approved at the February hearings included a projected underrecovery of $64,536,189. Actual data now available for the October 1995 through March 1996 period and revised projections for the April through September 1996 period indicate a total underrecovery of $199,936,411 by the end of the recovery period, or a $135,400,222 difference in the estimate included in the current fuel adjustment factor.

 The projected underrecovery for the current period primarily is due to increases in natural gas and heavy oil costs. The increase in fuel costs is the result of higher than projected heavy oil and natural gas prices reflecting a colder than normal winter in North America and extremely low crude oil and natural gas storage levels.

 FPL is requesting that the Commission approve its proposal that will levelize the charges for July through September 1996 with those currently forecasted for the next projection period, October 1996 through March 1997. To levelize the charges, FPL is requesting that a portion of the underrecovery be included in the fuel adjustment factor set for the July through September 1996 period and the remaining underrecovery be deferred for recovery during the period October 1996 through March 1997.

 We note that there has been no prudence review of FPL's fuel estimates and expenditures and we do not necessarily agree or disagree with FPL'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 FPL's various rate classes 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, on-peak and off-peak factors for each class and compares bills for 1,000 kWh of residential consumption before and after this fuel factor adjustment.

 FPL has requested an effective date beginning with customer billings on cycle day 3 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 FPL's customers should begin paying the fuel charge increase at the earliest practicable time. Based on the foregoing, staff recommends that the Commission approve FPL's increased fuel adjustment factor of 2.201 cents/kWh effective beginning with customer billings on cycle day 3 of July, 1996.

**ISSUE 2:** Should this docket be closed?

**RECOMMENDATION:** No. The Fuel and Purcased Power Cost Recovery Clause docket should remain open. If Issue 1 is approved, this tariff should become effective with customer billings on cycle day 3 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 is an on-going clause and should remain open.