

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:** June 23, 2008

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Lester, Draper, Matlock, McNulty, Slemkewicz) JS  
Office of the General Counsel (Bennett, Young) *PL EOD sum WBM 19x RIT*

**RE:** Docket No. 080001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

**AGENDA:** 07/01/08 – Regular Agenda – For Issue 1, no oral argument is requested participation is at the Commission’s discretion. For the remaining issues participation is at the Commission’s discretion.

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** McMurrian

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\080001.FPL.RCM.DOC

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### Case Background

On May 30, 2008, Florida Power & Light Company (FPL or utility) filed a petition for a mid-course correction to its Fuel Adjustment Factors. The Commission had previously approved the fuel cost recovery factors for FPL by Order No. PSC-08-0030-FOF-EI, issued January 8, 2008, in Docket No. 070001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

FPL requests the mid-course correction following the procedure established by Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI and Docket No. 840003-GU, In re:

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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-07-00333-PAA-EI, issued April 16, 2007, in Docket No. 070001-EI.

On June 9, 2008, Florida Industrial Power Users Group (FIPUG) filed a Motion to Dismiss FPL's mid-course correction petition, or in the alternative a Motion to Abate the mid-course correction until the Commission can hold a hearing on the petition. On June 16, 2008, FPL filed a Response in opposition to FIPUG's Motion to Dismiss Mid-Course Correction.

### Mid-Course Corrections

Mid-course corrections are used by the Commission between fuel hearings whenever costs deviate from revenue 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 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.<sup>1</sup> 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%.

In Order No. 98-0691-FOF-PU, the Commission moved the fuel clause hearings from biennial to annual proceedings. In determining to move to an annual docket, the Commission also addressed mid-course corrections. The Commission re-iterated its established policy to require a utility to notify the Commission when the utility's projected fuel revenue will result in an over-recovery or under-recovery in excess of ten percent of its projected fuel costs for the period.

The Commission, in deliberating the appropriateness of mid-course corrections, has enunciated several reasons for approving mid-course corrections. In Order No. 23906, issued December 20, 1990, in Docket No. 900001-EI, the Commission found that Florida Power & Light Company's mid-course correction, even though the under-recovery did not reach the 10% threshold, was in the best interest of FPL's ratepayers. FPL would be entitled to collect interest if the adjustment was deferred. Also, the magnitude of the under-recovery made it preferable to approve the mid-course correction. In analyzing its decision, in Order No. 23906, the Commission stated, "one of the purposes of levelizing fuel cost recovery is to prevent consumer 'rate shock,' which may be caused by volatile fuel prices. We find that approval of the mid-course correction requested by FPL would similarly help avoid excessive rate shock in that it will lessen the accumulation of a fuel cost under-recovery." *Id* at p.4.

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

Another regulatory reason for granting mid-course corrections was stated in Order No. 02-0501-AS-EI, issued April 11, 2002, in Docket No. 001148-EI and Docket No. 020001-EI, In re: Review of the retail rates of Florida Power & Light Company; and In re: Fuel and purchased power cost recovery clause with generating performance incentive factor. In that docket, FPL proposed to refund part of its anticipated over-recovery balance to ratepayers by mid-course correction. The Commission approved, stating that “[i]n the interest of matching fuel revenues with fuel costs, FPL’s proposal to refund part of its anticipated over-recovery balance to its ratepayers sooner rather than later is appropriate.” Order No. PSC-02-0501-AS-EI at p. 8.

In 2003, the Commission rendered a series of decisions on mid-course corrections in Docket No. 030001-EI. In Order No. 03-0381-PCO-EI, issued March 19, 2003, and Order No. PSC-03-0849-PCO-EI, issued July 22, 2003, the Commission granted FPL mid-course corrections. In Order No. PSC-03-0400-PCO-EI, issued March 24, 2003, the Commission approved Tampa Electric Company’s mid-course correction petition. In Order No. 03-0382-PCO-EI, issued March 19, 2003, the Commission granted PEF’s petition for mid-course correction. These four orders discuss the factors considered by the Commission in its evaluation of past mid-course correction requests. In the 2003 orders, the Commission found that granting a mid-course correction beginning in April 2003 would provide a better price signal to customers rather than waiting to recover those costs from customers in January 2004. In other words, a more current recovery of increased costs would provide a better match between the time costs are incurred and the time they are recovered. Furthermore, the Commission was concerned that deferring 2003 costs until 2004 could result in a more severe impact upon customer rates in 2004, especially if the actual 2003 costs or 2004 costs are greater than the newly projected costs. Finally, by granting the mid-course correction, the customers would not pay as much interest on the under-recovery.

Over the years the Commission has also clarified the manner in which the mid-course corrections are processed. In the early 1990’s, the mid-course corrections were decided using the Proposed Agency Action process. In 2001, in a review of the move from semi-annual to annual fuel clause hearings, the Commission also clarified its position on the procedural handling of mid-course corrections: “[W]e have granted or denied such [mid-course correction] petitions through informal proceedings after testing the reasonableness of actual and revised projected data supporting a utility’s petition for a mid-course correction.” Order No. PSC-01-1665-PAA-EI, issued August 15, 2001, in Docket No. 010001-EI, p. 5. In that order, the Commission acknowledged that the hearing and any refunds due customers because of the mid-course correction would occur in the November fuel hearings. In 2007, the Commission clarified the manner in which the over or under-recovery was to be calculated. In Order No. PSC-07-0330-FOF-EI, issued April 16, 2007, in Docket No. 070001-EI, the Commission confirmed that prior year under-recoveries not included in the current factor should be included in reporting over and under recovery calculations.

Mid-course corrections are part of the fuel proceeding. They 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 the Commission’s authority to set

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fair and reasonable rates, Section 366.05, Florida Statutes. The fuel clause proceedings are exempted from rulemaking, Section 120.80(13)(a), Florida Statutes.

### Discussion of Issues

**Issue 1:** Should the Commission grant the Motion to Dismiss or Alternatively to Abate filed by the Florida Industrial Power Users Group?

**Recommendation:** No. The Commission should deny the Motion to Dismiss or Alternatively Abate filed by the Florida Industrial Power Users Group (FIPUG). Florida Power & Light Company has complied with Order No. 07-0333-PAA-EI in calculating its under-recovery. Procedural due process is built into the fuel clause proceedings so that ratepayer's interests remain protected. FIPUG's request to extend the under-recovery payment over the projected year is addressed in Issue 2 below. (Bennett)

### **Staff Analysis:**

#### FIPUG's Motions

On June 9, 2008, FIPUG filed a Motion to Dismiss or Alternatively Abate the Mid-course Correction proceeding and schedule a hearing. FIPUG, in its motion to dismiss, asserts that FPL's Petition for Mid-course Correction did not meet the criteria for granting the mid-course correction. Alternatively, FIPUG asks that the Commission abate its decision on mid-course corrections until FPL files sworn testimony. FIPUG asks that the matter be set for public hearing and that customers be permitted to cross examine utility witnesses under oath. FIPUG asserts that this would afford the public with minimum due process and allow them to receive a fair understanding of the rate increase.

FIPUG states that FPL filed a petition for mid-course correction seeking \$746 million. FIPUG contends that the Commission's Order No. PSC-07-0333-PAA-EI, issued April 16, 2007, which requires utilities to include prior year under or over recoveries in mid-course correction calculations; when combined with a national policy allowing the value of the dollar to fall, and with the highly volatile commodity futures trading market, has brought potential hardship to Florida consumers. FIPUG, in its motion provides an illustration which allegedly demonstrates the differing results. FIPUG argues Order No. PSC-07-0333-PAA-EI caused unintended harm to ratepayers because it brings prior year true-ups into play and requires a utility to reproject revenues and expenses for the remainder of the year rather than looking only to the actual losses a utility experiences year to date.

FIPUG poses several questions in its motion, asking: why hedging did not protect customers from rate increases; did FPL delay reporting fuel cost increases until after proposed legislatively-mandated rate increases were in place; are customers entitled to a hearing to present testimony about the impact of the unanticipated increase on their operations; is the rate increase designed to conceal the full impact of the nuclear plant increases scheduled to begin in January 2009; if hedging and annual fuel factors are supposed to provide rate stability, will the fuel cost increase move the policy in the opposite direction; and are FPL's estimates of future lost sales credible? In asking why hedging did not protect customers, FIPUG asserts that FPL buys bought hedges in 2007, presumably at lower prices. If FPL was locking in the lower 2007 prices, and if electrical sales fall off, FPL should have a double reward, with its ability to sell off derivatives of unneeded fuel at a premium and pass through the benefits to the consumers. FIPUG, in asking

why fuel cost increases were not reported earlier than May 30, wonders if it could be because of FPL's legislative activity. FIPUG asserts that this delay in reporting under-recovery requires a dismissal of the petition. FIPUG asserts that consumers should be given a chance to present evidence to show any adverse impact of imposing a rate increase after their budgets for the year are in place. FIPUG claims that in the past, utilities have supported an extended payback for under-recoveries rather than a five month payback. FIPUG states that it would like to have the opportunity to recommend to the Commission a reasonable payback period if the fuel cost shortfall actually occurs. Furthermore, FIPUG asserts, the shorter payback period has only been required by the Commission when future year increases are also anticipated. FIPUG states that FPL provided no evidence to indicate an extended payback is not warranted. FIPUG provides the May Natural Gas Price Outlook published by EIA to show that prices in 2009 will moderate. FIPUG also asks if the fuel increase will be on top of the increases for nuclear cost recovery or whether the fuel increases will fall away when the nuclear increases go into effect. FIPUG contends that the Commission objective of rate stability is violated if large increases are not spread over several years. According to FIPUG, this is exacerbated by including carryovers from prior years. Finally, FIPUG questions whether some of the anticipated lost revenue forecast is based on weather related events and asks that FPL be required to present testimony.

#### FPL's Response

FPL's petition for mid-course correction is addressed in Issues 2 and 3 below. On June 16, 2008, FPL filed a response to FIPUG's Motions. FPL requests that the Commission deny FIPUG's motion. FPL asserts that its petition complies with the mid-course correction orders, Order No. 13694 and Order No. PSC-07-0333-PAA-EI. FPL states that Order No. PSC-07-0333 requires electric utilities to notify the Commission if a projected fuel cost over or under recovery exceeds 10%. According to FPL, its mid-course correction petition includes a \$121,036,106 under-recovery of 2007 fuel costs and a \$625,117,310 under-recovery of 2008 fuel costs that FPL projects based on current information. FPL concludes that its calculation of the total under-recovery of \$746,153,416 it will experience by the end of 2008 is calculated in accordance with the Commission's Order No. PSC-07-0333-PAA-EI. FPL notes that FIPUG's motion alleges no deviation from the computational requirements of the Commission order.

FPL asserts that Order No. PSC-07-0333-PAA-EI requires a utility to notify the Commission when the total projected under-recovery exceeds 10% of the utility's current projection of the Jurisdictional Fuel Revenue Applicable-to-Period (Schedule A-2, Line C-3). FPL states that its total projected under-recovery for 2008 is more than 10% (slightly more than 12%) of the current projection of 2008 Jurisdictional Fuel Revenue Applicable-to-Period. FPL concludes that because its calculations indicate it will exceed the 10% threshold, it must notify the Commission and its petition for mid-course correction satisfies FPL's reporting responsibility. FPL argues that because it has correctly calculated its projections according to Order No. 07-0333-PAA-EI and filed the petition, the motion by FIPUG alleges no deficiency of the petition for mid-course correction that warrants dismissal. FPL asserts that because FIPUG's motion does not allege any violation of Commission orders on mid-course corrections, its motion to dismiss should be denied.

FPL next addresses FIPUG's motion to abate until a hearing is conducted on the proposed mid-course correction. According to FPL, the Commission has not traditionally held hearings prior to ruling on mid-course corrections. FPL asserts that to do so in this instance would be unnecessary and inappropriate. FPL states that a hearing is unnecessary because, as is the case in all fuel proceedings, the revenues collected pursuant to the mid-course correction are subject to review and true-up at the subsequent fuel clause hearing. FPL further asserts that FIPUG's concern that it be permitted to present its views on the mid-course correction can be addressed at the Agenda Conference on July 1, 2008, if the Commission permits parties to participate. FPL's final argument on this point is that a hearing would be inappropriate because it would work against one of the fundamental purposes of a mid-course correction, which is to adjust fuel cost recovery factors promptly to reflect major changes in projected fuel costs. FPL concludes that holding a hearing would delay implementation of the mid-course correction which likely would result in a substantial reduction in the number of months remaining in 2008 over which collection would be spread.

FPL also responds to FIPUG's assertion that the under-recovery be spread over 17 months rather than 5 months by asking the Commission to deny that request. FPL argues that this approach would be unwise. FPL states that it has no reason to expect that customers' total bills will be lower in 2009 than for the remainder of 2008 with the mid-course correction included in the factor. FPL provides an exhibit which it asserts demonstrates that natural gas and residual fuel oil delivered in 2009 are as high as or higher than the prices for those same fuels delivered in 2008. According to FPL, deferring a portion of the mid-course correction for recovery in 2009 could contribute to another step-increase in customers' total bills at the beginning of 2009. FPL also contends that spreading the mid-course correction over seventeen months would result in a significant increase in the total interest charges incurred by customers on the outstanding under-recovery balance while it is being recovered.

### Analysis

Staff believes that the purpose of Order No. 13694, which requires notification of mid-course corrections, is to protect the ratepayers. Because the utility will recover its reasonably incurred fuel costs (including any under-recoveries) through the fuel clause either by a mid-course correction or by an increase in next year's fuel factor, the mid-course correction is not for the benefit of the utility. Staff's opinion is supported by the body of prior orders granting mid-course corrections. In previous orders, the Commission granted mid-course corrections: (1) because the ratepayers would pay a substantial amount of interest if the under-recovery was deferred to the following year (Order No. 23906), (2) to prevent consumer 'rate shock,' which may be caused by volatile fuel prices (Order No. 21325), (3) to match fuel revenues with fuel costs (Order No. PSC-02-0501-AS-EI), and (4) to provide a better price signal to customers (Order Nos. PSC-03-0849-PCO-EI, PSC-03-0400-PCO-EI, PSC-03-0382-PCO-EI, and PSC-03-0381-PCO-EI).

With the purpose of mid-course corrections being ratepayer protection, it is staff's opinion that FIPUG's concerns as set forth in its motions can be adequately addressed in the normal course of the fuel docket without dismissing or abating the Commission's opportunity to reach a decision on FPL's mid-course correction petition. First, technical staff provides the

Commission and parties a preliminary review of the petition testing the reasonableness and accuracy of actual and revised data supporting a utility's position (Order No. PSC-01-1665-PAA-EI). The information obtained in data requests and set forth in Issue 2 and 3 below addresses many of the factual questions raised by staff. Second, the parties, including FIPUG, have a complete opportunity in the November fuel hearing to conduct discovery, present witnesses, and cross-examine utility witnesses about the reasonableness of the company's fuel costs, including the mid-course corrections. Third, if a mid-course correction is granted by the Commission now, but later the utility over-recovers, the utility must reduce its fuel factor for 2009. Fourth, the Commission may allow FIPUG and other parties to address their concerns at the July 1, 2008, Agenda Conference.

As addressed more specifically in Issue 2 below, staff believes that FPL has calculated its under-recovery as directed by Order No. PSC-07-0333-PAA-EI. FPL included the actual under-recovery it had experienced in 2007 that was not included in this year's fuel factor. FPL also reprojected its revenues and expenses, as directed by that same order. Staff's review of those responses and its analysis of the need for a mid-course correction are discussed in Issue 2.

FIPUG also challenges FPL's interpretation of Order No. PSC-07-0333-PAA-EI. The 2007 order clarifying the appropriate mechanism to calculate over and under-recoveries is not new to the Commission, as FIPUG appears to suggest. In TECO, FPL, and PEF's 2003 mid-course correction orders referenced above, the Commission had before it very similar factual circumstances. In Order No. 03-0400-PCO-EI, TECO re-projected its fuel costs using updated assumptions to develop future cost and revenue estimates. The Commission allowed the mid-course correction and stated that "[d]uring the scheduled November 12-14, 2003, hearing in this docket, we will compare these estimates to actual data, then apply the difference to next year's fuel factors through the true-up process. Any over-recovery that Tampa Electric may collect through its approved fuel factors will be refunded to Tampa Electric's ratepayers with interest." And in Order No. PSC-03-0382-PCO-EI, the Commission was presented with Progress's reprojected revenues and expenses, as well as a prior year's under-recovery. The Commission acknowledged that historical year under-recoveries could be included as part of the mid-course correction, and found good reason to do so in the 2003 mid-course correction request. In approving Progress's request to include part of the historical year under-recovery, the Commission stated:

First unlike PEF's projected 2003 under-recovery amount, PEF's 2002 under-recovery represents the difference between actual costs incurred and revenues received. Although unaudited, these actual fuel revenues and costs from 2002 have a higher degree of certainty than the projected fuel revenues and costs for 2003. We note that our staff has commenced an audit of PEF's 2002 fuel revenues and costs in the normal course of this docket, and that any audit findings which compel an adjustment to these amounts may be addressed at our November 12-14, 2003, hearing scheduled for this docket. Second, recovery of \$28.5 million of the total under-recovery commencing in April 2003, instead of January 2004, would be consistent with the basic principle of ratemaking which seeks to match the timing of the incurrence of costs with the timing of their recovery.

Order No. PSC-03-0382-PCO-EI at p. 4. Likewise, the Commission approved FPL's mid-course correction which included historical year (2002) under-recovery amounts and reprojected current year (2003) revenues and expenses. Order No. PSC-03-0381-PCO-EI.

FIPUG's motion to abate requests that the decision on a mid-course correction be deferred until a hearing on FPL's petition is held by the Commission. In making the decision to abate or not, the Commission should weigh the timing of a hearing with the need to protect ratepayers. It is staff's opinion that ratepayers would be better served by the Commission evaluating the mid-course correction now and considering the substantive merits of witness testimony at the November fuel hearing. A hearing on the mid-course correction prior to the mid-course correction going into effect would delay and perhaps prohibit the mid-course correction from occurring. It is better for the Commission to evaluate the information it has before it and determine what is in the best interest of ratepayers at the July 1, 2008, Agenda Conference, than to defer a decision until later in the year. This is uniquely true in the fuel clause docket because of the layers of procedural due process afforded to ratepayers. First, parties may be permitted to address the Commission regarding their concerns at the July 1, 2008, Agenda Conference. Second, there is a full procedural hearing to consider FPL's actual costs and revenues, during which the parties are afforded opportunity for discovery, to present witnesses, and to cross-examine utility witnesses. Finally, if a utility over recovers for the year, the customer's will receive a refund with interest for that over-recovery through a relative reduction in the 2009 fuel factor.

#### Conclusion

Staff recommends that the Commission deny FIPUG's Motion to Dismiss or Alternately to Abate the proceedings. FPL has complied with Order No. PSC-07-0333-PAA-EI in calculating its under-recovery. Procedural due process is built into the fuel clause proceedings so that ratepayers' interests remain protected. FIPUG's request to extend the under-recovery payment over the projected year is addressed in Issue 2 below.

**Issue 2:** Should the Commission approve FPL's petition for mid-course correction to its 2008 fuel and purchased power cost recovery factors?

**Recommendation:** Yes. The Commission should approve FPL's petition for a mid-course correction to its 2008 fuel and purchased power cost recovery factors. The proposed factors are shown on Attachment C. If the Commission approves an alternative to FPL's petition, FPL should file revised fuel and purchased power cost recovery factors for administrative approval by staff. (Lester, Matlock, McNulty, Draper)

**Staff Analysis:** Staff analyzed FPL's petition and the components of the projected under-recovery. Staff then developed options for the mid-course correction to the fuel factors.

Calculation of Under-recovery

Based on FPL's actual (January through April) and re-projected (May through December) revenue and expense data for 2008, FPL expects that its fuel and purchased power costs will be under-recovered by \$746,153,416 by the end of 2008. This under-recovery amount is FPL's estimated December 2008 End-of-Period Total Net True-up. FPL has based its petition on that estimate's percent of its 2008 estimated Jurisdictional Fuel Revenue Applicable to Period, \$5,784,839,213. The under-recovery percent is 12.90%. The estimated under-recovery is comprised of the difference between the estimated and actual December 2007 End-of-Period Total Net True-up, (\$121,036,106), the estimated 2008 interest on 2007's difference and 2008's monthly balances, (\$11,804,759), and the difference between 2008's estimated revenues and estimated expenses, (\$613,312,550). Table 1 below presents the calculation of the under-recovery percentage.

TABLE 1 – CALCULATION OF UNDER-RECOVERY PERCENT	
Component	Dollars
2007 True-up	-\$121,036,106
2008 Projected Under-recovery	-\$613,312,551
2008 Interest	-\$11,804,759
Estimated 12/08 End of Period Total Net True Up	-\$746,153,416
Jurisdictional Fuel Revenue Applicable to 2008	\$5,784,839,213
2008 Mid-Course Percent	12.90%
Source: Schedule E1-B, Mid-Course Petition	

FPL's actual April 2008 End-of-Period Total Net True-up was an under-recovery of \$184,636,651. The July 2008 estimate is an under-recovery of \$486,098,018, and the December 2008 estimate is an under-recovery of \$746,153,416. (July's estimated under-recovery is the amount to be collected between the beginning of August and the end of December.) Based on current estimates, the under-recovery percent will increase from 3.19% to 8.40% from April to July, and increase from 8.40% to 12.90% from July to December.

### FPL's Projected Fuel Cost Under-recovery for 2008

According to FPL, the reason for the projected 2008 under-recovery is that fuel prices have increased to a higher level than the estimated prices upon which its current fuel factors are based. FPL originally estimated its 2008 fuel costs as of July 24, 2007, and it bases its mid-course request on fuel price forecasts as of May 21, 2008. The graphs on Attachment A depict the change in projected prices. Staff notes these graphs are as of particular days. The oil and gas markets are volatile and futures prices change from day to day. Further, staff notes Progress Energy Florida (PEF) filed its mid-course petition only a few days before FPL's filing. However, PEF used a forward curve as of April 21, 2008, when natural gas prices were lower.

FPL states that fuel prices have increased due to the following factors:

- Natural gas prices have increased due to: a projected tightening of supply for filling storage requirements by the end of October 2008; declining Canadian production; and domestic gas prices being lower than prices in Europe and Asia, which divert LNG cargoes from the U.S and reduce domestic supply. Power generation demands in Europe and Asia have driven a surge in demand for LNG. Domestic production has not grown fast enough to match demand.
- Crude oil prices have increased due to weak non-OPEC supply, robust growth in demand in Asia and developing countries, and geopolitical risks. Higher crude oil prices directly affect the price of heavy fuel oil and diesel fuel.
- While delivered coal prices have increased, in part due to higher diesel fuel prices that increase transportation costs, FPL is not as affected by these increases as other Florida IOUs since its fuel mix is weighted toward gas, nuclear, and oil.

### FPL's Actions to Mitigate Fuel Costs and Price Volatility

FPL has endeavored to reduce 2008 fuel costs and fuel price volatility. For 2008, the Company has hedged portions of its oil and gas purchases. This hedging has generated, on an actual and marked to market basis, significant amounts of gains for 2008. These gains, which are netted against fuel costs, reduce but do not eliminate the impact of higher fuel prices.

For 2008, FPL's actual and estimated (marked to market) hedging gains for gas and oil are \$729,832,184 and \$312,591,058, respectively, as of June 11, 2008. Regarding these results, FPL notes the following: (1) these results are as of a single point in time; (2) given volatile markets, the results can vary from day to day; and (3) the goal of its hedging program is volatility control, such that hedging can result in gains or losses within any given calendar period. Staff agrees with these points. Staff notes that it will review in a more comprehensive way the actions taken by FPL to mitigate fuel costs and price volatility as part of the November fuel clause proceeding.

Staff's Review

Staff reviewed the key assumptions regarding changes in fuel prices, system efficiency, system generation, and fuel mix. The data used for comparison purposes is the original projection data contained in the September 4, 2007 testimony of FPL witness Kory Dubin in Docket No. 070001-EI and in the mid-course projection data filed by FPL with its petition on May 30, 2008. FPL used this data to support its re-projected fuel costs and revenue estimates. The comparative data appear in Tables 2-5. FPL used these data to support its reprojected fuel costs and revenue estimates.

Table 2 - Change in FPL's 2008 Delivered Fuel Price Forecast (\$/MMBtu)			
	As filed (9/4/07)	As filed (6/3/08)	Change
Natural Gas	9.52	10.78	1.26
Residual Oil	9.44	9.49	0.05
Distillate Oil	15.97	15.12	0.85
Coal	2.30	2.34	0.04
Nuclear	0.42	0.43	0.01
Source: Schedule E3			

Table 3 - Change in FPL's 2008 System Efficiency (Btu/kwh)		
	As filed (9/4/07)	As filed (6/3/08)
Natural Gas	7,625	7,702
Residual Oil	9,903	10,139
Distillate Oil	12,588	12,486
Coal	10,021	10,141
Nuclear	11,151	11,012
Weighted Average	8,765	8,805
Source: Schedule E3		

Table 4 - Change in FPL's 2008 System Net Generation (MWH) by Fuel Type			
	As filed (9/4/07)	As filed (6/3/08)	Percent Change
Natural Gas	65,135,881	62,691,286	-3.75
Residual Oil	7,213,816	4,907,330	-31.97
Distillate Oil	388	8,355	2,053.35
Coal	6,903,293	6,733,834	-2.45
Nuclear	24,050,491	23,905,481	-0.60
Total	103,303,869	98,246,285	-4.90
Source: Schedule E3			

As can be seen from Table 2, FPL's delivered fuel prices are projected to increase compared to the original projections. Per the mid-course correction filing, 2008 natural gas prices are projected to be \$10.78/MMBtu, an increase of \$1.26/MMBtu over the September 2007 projection filing of 2008 natural gas prices. The mid-course filing's price estimate for natural gas includes the impact of hedging gains identified above, as well as transportation costs and basis.

As indicated in Table 3, FPL shows a slight decrease in system efficiency compared to original projections as measured by btu/kwh. Weighted average system efficiency declined from 8,765 btu/kwh to 8,805 btu/kwh. The percent decrease is 0.5%.

As indicated in Table 4, system generation is projected to decrease per FPL's mid-course correction filing (4.90 percent). The mid-course projection for system generation, measured in megawatt hours, shows a significant decrease in residual oil generation (32.00 percent). Meanwhile, FPL projects to generate only slightly less electricity from natural gas (3.75%) as it becomes the more cost-effective option compared to oil. This is consistent with FPL's fuel price forecast showing that residual oil prices are expected to increase by a greater amount than natural gas prices.

Staff sought to identify the sources of the 2008 under-recovery by fuel type, power sales, purchased power, and all other factors, based on kilowatt hour sales. This breakdown is presented below in Table 5.

1	Coal	\$(1,797,316)
2	Residual oil	168,005,034
3	Light Oil	(1,504,345)
4	Natural Gas	(720,081,339)
5	Nuclear	(5,659,592)
6	Non-fuel Generation	(735,979)
7	Power Sold & FKEC/CKW	(13,645,557)
8	Purchased Power	(9,992,889)
9	Qualifying Facilities	(10,519,818)
10	Economy Energy	385,326
11	System kWh Sales (Sum of 1-10)	(595,546,488)
12	Wholesale kWh Sales	(31,749)
13	Jurisdictional kWh Sales (Sum of 11-12)	(595,514,742)
14	Revenue Adjustment Due to Rate Class Usage Variations	(13,296,236)
15	Unrefunded True-up and GPIF for 2008	(4,501,628)
16	Line-Loss Correction	0

17	Total June 2008 Projected Under-recovery (Sum of 13 – 14)	(613,312,551)
Source – Schedules E1, E1-B, E3, E6,E7, E8, E9 from 9/4/07 , 6/3/08 Mid Course filings, and June 6 Data Request Responses.		

Table 5 shows the impact of higher natural gas and oil prices in 2008, resulting in additional costs relative to revenues produced by current factors of \$613,312,551 compared to the original estimate. Significantly, lower residual oil volumes in 2008 are projected to result in an over-recovery of \$168,005,034 despite the marked increased price of residual oil compared to original projections. As discussed, FPL has replaced much of its oil-fired generation with lower cost and more efficient gas-fired generation.

As shown on Table 5, FPL projects an under-recovery in purchased power by contract and power purchased from qualifying facilities. FPL’s purchased power is based on gas and coal and is therefore affected by higher gas and coal prices. Overall, staff believes the primary cause for FPL’s projected under-recovery is that natural gas and fuel oil prices are higher than originally projected.

Consistent with our review of previous mid-course corrections, our analysis of FPL’s petition includes an examination of whether the assumptions (i.e. fuel prices, retail energy sales, generation mix, and system efficiency) that FPL used to support its re-projected fuel costs appear reasonable. FPL used these updated assumptions to develop future cost and revenue estimates. During the scheduled November 4-6, 2008, hearing in this docket, we will compare these estimates to actual data, then apply the difference to next year’s fuel factors through the true-up process. Any over-recovery that FPL may collect through its approved fuel factors will be refunded to FPL’s ratepayers with interest. We will address whether FPL’s actions to procure fuels cost-effectively were appropriate, including its actions to hedge fuel prices, at our November 6-8, 2008, evidentiary hearing

Options for Mid-course Correction to Fuel Factors

The fuel adjustment charge is designed to allow utilities to recover fuel cost on a projected basis. As the recovery period unfolds, actual and reprojected costs as a rule differ from original projections, so an under-recovery or over-recovery results. Order No. 13694 requires utilities to notify the Commission if the projected under-recovery or over-recovery exceeds 10% of the estimated jurisdictional fuel revenue applicable to the period.

In Order No. PSC-98-0691-FOF-PU, issued May 19, 1998 in Docket No. 980269-PU, the Commission changed from setting fuel factors every six months to setting fuel factors for the calendar year, i.e., annual fuel factors. When the Commission receives petitions for mid-course corrections in the middle of the year rather than the beginning of the year, the period for spreading an under-recovery is shorter and can have a significant rate impact. While the utility is permitted to recover its fuel costs, the Commission retains the discretion to evaluate the rate impact of a mid-course correction upon customers and set rates appropriately.

With mid-course corrections in the past, the Commission has considered the stability of fuel factors within the year and between years (e.g. Order No. PSC-03-0382-PCO-EI, Page 9). The Commission has noted that stable annual fuel factors are important for customers because stable factors give customers more certainty in planning their expenditures for electricity. However, several issues are in tension with the concept of rate stability.<sup>2</sup>

If fuel costs vary significantly from original projections, then fuel factors will be less representative of costs and customers will not receive accurate price signals regarding the cost of electricity. In the case of actual and projected fuel costs being higher than original projections, an under-recovery will result and, if not corrected, will affect the calculation of subsequent year fuel factors. In times of rising fuel prices, such an under-recovery can compound the rate impact because the subsequent year's fuel factors would reflect both the higher fuel prices and the prior year's under-recovery. In addition, interest would accrue on the under-recovery. Another aspect of deferred under-recoveries is the concept of intergenerational inequity. If a cost is deferred, even a year or portion of a year, a slightly different set of customers will be charged for collection of the costs incurred.

Consideration of a mid-course change to fuel factors involves balancing the goals of achieving a stable annual fuel factor with the goal of sending accurate price signals to customers. Consistent with past orders, staff believes it is appropriate for the Commission to consider the rate effects and bill impacts for not only the remaining months of the current year but also for the next calendar year.

Table 6 shows the recent trend in FPL's fuel factors and 1,000 kWh residential bills.

	2004	2005	2006	Jan-Apr 2007	May-Dec 2007	2008 Current	2008 FPL Proposed
Levelized Fuel Cost Recovery Factor, ¢/kWh	3.742	4.001	6.178	6.071	5.946	5.553	7.137
Residential 1,000 KWH Bill, \$	86.43	89.92	108.61	103.51	103.51	102.63	118.91

Source: Orders approving factors issued in December/January for 2004-2008, Mid Course Petition Schedule E-10

As Table 6 indicates, FPL's fuel factors and FPL's residential class 1,000 KWH bill increased during 2004 through 2006 and then declined from 2006 to 2008.

To allow consideration of all the above points regarding rate impact, staff requested FPL to provide estimated bill impacts and associated rates/factors for four possible mid-course correction recovery options (scenarios). The four options include:

- Option A. Approve the requested mid-course correction,
- Option B. Deny the requested mid-course correction and allow any under-recovery to be collected in 2009 fuel factors,

<sup>2</sup> For a discussion of rate stability, see Order No. PSC-98-0691-FOF-PU, page 4. For a discussion of the impacts of deferrals and mid-course corrections, see Order No. PSC-03-0382-PCO-EI, pages 8 and 9.

- Option C. Collect 50% of the identified under-recovery during August through December of 2008 and defer the remaining 50% to 2009; or
- Option D. Collect the under-recovery over 17 months (from August 2008 through December 2009).

Staff believes these four options offer a reasonable range of alternatives from which to consider possible rate adjustments and bill impacts. Staff has included FPL's response as Attachment B to this recommendation. It is apparent that both the 2009 fuel factor increases and 2009 bill impacts under Options B, C, and D are high relative to Option A. Option C (50% in 2008) suggests step increases in bills in August 2008, January 2009, and June 2009. Option C's appeal is that it would allow customers from all rate classes a smaller increase in the short term, thus avoiding some degree of rate shock, while also allowing them the opportunity to adjust their respective budgets for the eventual increases in 2009. The drawback of Option C, similar to Options B and D, is that it does ultimately result in a higher fuel factors and higher bills in 2009 than Option A. Option A appears to offer the greatest degree of stability in the fuel factor from 2008 to 2009. No matter which option is selected, FPL's 2009 rates and bills are projected to be higher than any time in the past.

In addition, FPL filed a letter with the Commission on June 20, 2008, indicating that, based on the June 16, 2008, forward curves for oil and gas, the Company would be under-recovered by an additional \$300 million in 2008 beyond the amount identified in its petition. FPL did not propose to revise its petition it requested factors based on this new information, but did indicate that, even with the mid-course correction being approved as filed, there is a possibility of additional under-recovery in 2008.

Upon review of the projected rate changes and bill impacts under the four different options, staff believes that FPL's requested mid-course correction should be approved as filed. Staff believes FPL's proposal offers the greatest degree of rate stability of the four options presented based on the best available information at this time. Staff's considerations include:

1. Accurate Price Signals – Approval of FPL's requested mid-course correction would bring fuel factors in line with current and expected costs and provide an accurate price signal to customers.
2. Levelized Bills – If the mid-course correction is approved, FPL customers' bills are expected to stay at about the same level from August 2008 through December 2009. Under Option A, the highest level of FPL's bill during the 2008-2009 period (\$118.82) will be lower significantly lower than the highest level of FPL's bill under any of the other options (Option B – \$125.91, Option C - \$122.36, Option D - \$123.82).
3. Prevent Possible Compound Increase in 2009 Fuel Factors - If the 2008 final true-up amount is a high under-recovery, deferring the mid-course correction under Options B, C, and D would compound the 2009 fuel factor increase. This could result from a number of events, such as sharp

and sustained fuel price increases due to decreased gas production and delivery associated with a Gulf of Mexico hurricane during the latter half of 2008.

4. FPL's 2009 Non-Fuel Rates Projected to be Higher Than 2008 Non-Fuel Rates - Known and projected increases to non-fuel components of customer bills, including capacity costs recovery increases and base rate adjustments, are projected to contribute to additional bill impacts. The capacity cost increases reflect FPL's projected costs of the approved nuclear uprates and Turkey Point 6-7 through the nuclear cost recovery clause, while the base rate increases are associated with cost recovery, via the generating base rate adjustment (GBRA), of West County Unit 1 in June 2009. FPL's 2009 rate and bill estimates do not include FPL's proposed Solar Projects which, if approved, would result in increases in the environmental cost recovery factors in 2009. FPL's 2009 rate and bill projections do not include its net under-recovery (as of May 31, 2008) of \$38 million other non-fuel clauses. These increases in 2009 non-fuel rates provide an additional reason to avoid a substantial 2008 fuel cost deferral to 2009.
5. Reduced Interest - If the Commission approves the requested mid-course correction, interest costs to customers associated with any deferral of the under-recovery would be avoided.
6. Reduced Intergenerational Inequity – Matching the timing of the collection of costs with the time the costs will be recovered would serve to reduce any intergenerational inequity associated with fuel cost recovery.

#### Conclusion

Staff believes that FPL's basis for requesting the proposed mid-course correction is sound. Actual and projected coal, oil, and natural gas cost increases indicate that FPL's current estimated under-recovery is reasonable. Staff considered four options for implementing the rate adjustments, and believes Option A (Approve the Mid-Course Correction as filed) is the best overall option, especially considering rate stability. Staff will continue to conduct discovery on the actual and estimated expenditures of FPL and conduct a thorough review of costs in preparation for the November 2008 fuel hearing.

In order to promote rate stability and to reduce the risk of compounded increases in rates in 2009, Staff recommends the Commission approve FPL's requested mid-course correction to its fuel factors to collect its projected under-recovery of \$746,153,416 in 2008. FPL's proposed fuel and purchased power cost recovery factors by rate class for the period August through December 2008 are shown in Attachment C.

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

**Recommendation:** If the Commission approves staff's recommendation in Issue 2, the effective date of the revised cost-recovery factors should be August 4, 2008. (Draper)

**Staff Analysis:** FPL has requested an effective date of August 4, 2008, cycle day 3 of August 2008. In other words, customers whose meters are read on or after August 4, 2008 will be billed under the new recovery factors. An effective date of August 4, 2008 will ensure that all customers are billed under the new factors the same amount of time since FPL always applies revised fuel factors on cycle day 3 of any given month.

Starting July 3, 2008, FPL will notify its customers of its proposed mid-course correction through a bill insert. The July 3 mailing date ensures that customers receive a 30-day notice that the new fuel factors may change. The bill insert states FPL'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. Staff has reviewed the bill insert. Due to time needed by FPL for printing, FPL cannot wait for a Commission vote at the July 1 Agenda Conference to print the bill inserts. FPL proposes to include details of the Commission's decision in customers' August bills.

Providing customers with a 30-day notice prior to implementing new fuel factors as a result of a midcourse correction is consistent with the Commission's past decisions and allows customers the opportunity to adjust their usage in light of the proposed factors.<sup>3</sup> Staff believes that FPL's proposed effective date and plan to notify its customers are appropriate and should therefore be approved.

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<sup>3</sup> 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.

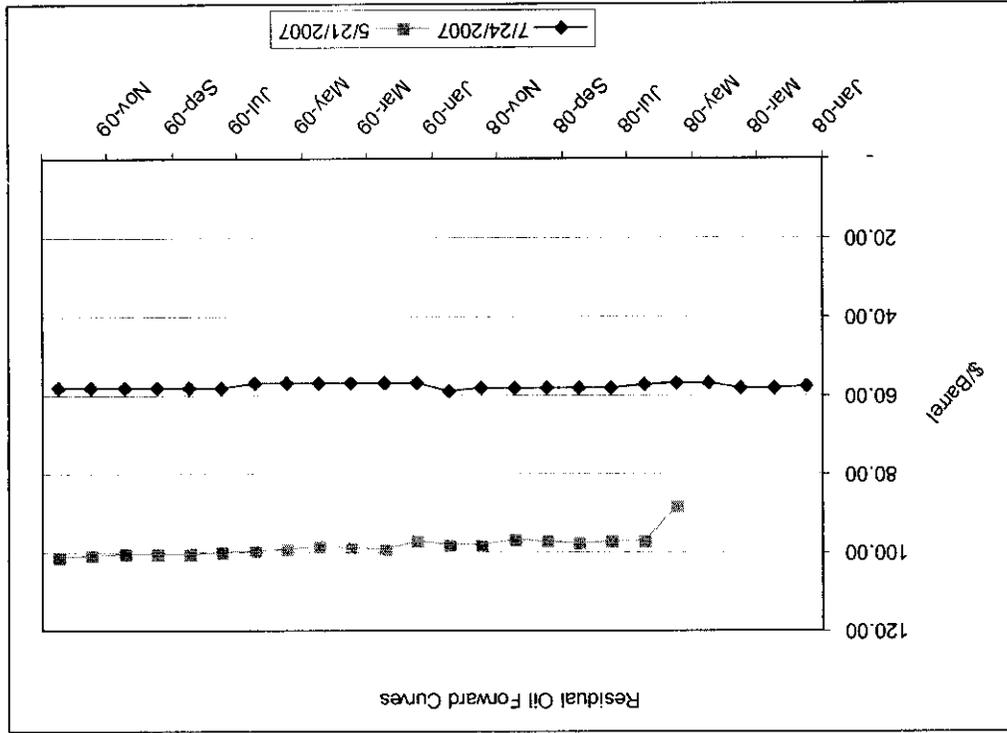
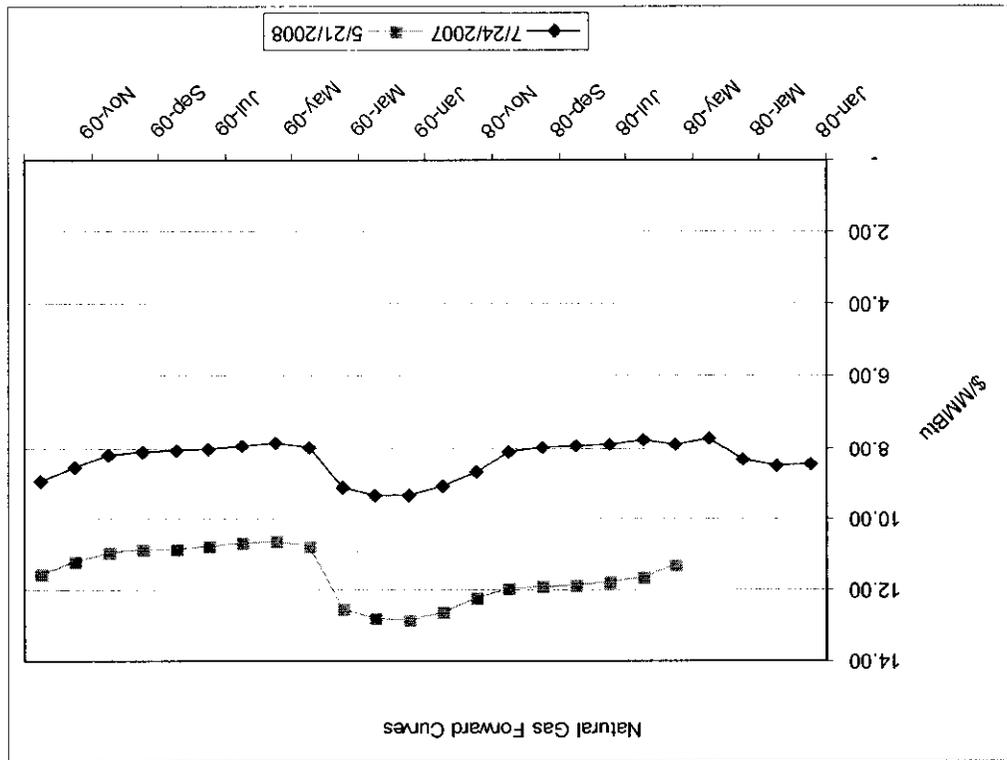
Docket No. 080001-EI

Date: June 23, 2008

**Issue 4:** Should this docket be closed?

**Recommendation:** The fuel docket is an on-going docket and should remain open. (Bennett, Young)

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



COMPANY: FLORIDA POWER & LIGHT COMPANY

SCHEDULE E10

	CURRENT	MIDCOURSE	DIFFERENCE		PRELIMINARY	DIFFERENCE		PRELIMINARY	DIFFERENCE	
	MAY 08 - JUL 08	CORRECTION AUG 08 - DEC 08	\$	%	JAN 09 - MAY 09	\$	%	JUN 09 - DEC 09	\$	%
BASE	\$39.37	\$39.37	\$0.00	0.00%	\$39.37	\$0.00	0.00%	\$40.76	\$1.39	3.53%
FUEL	\$52.27	\$68.15	\$15.88	30.38%	\$64.16	(\$3.99)	-5.85%	\$64.16	\$0.00	0.00%
CONSERVATION	\$1.45	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%
CAPACITY PAYMENT	\$5.46	\$5.46	\$0.00	0.00%	\$7.97	\$2.51	45.97%	\$7.97	\$0.00	0.00%
ENVIRONMENTAL	\$0.40	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%
STORM RESTORATION SURCHARGE	<u>\$1.11</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>
SUBTOTAL	\$100.06	\$115.94	\$15.88	\$0.30	\$114.46	(1.48)	-1.28%	\$115.85	\$1.39	1.21%
GROSS RECEIPTS TAX	<u>\$2.57</u>	<u>\$2.97</u>	<u>\$0.40</u>	<u>15.56%</u>	<u>\$2.93</u>	<u>(0.04)</u>	<u>-1.35%</u>	<u>\$2.97</u>	<u>\$0.04</u>	<u>1.37%</u>
<b>TOTAL</b>	<b><u>\$102.63</u></b>	<b><u>\$118.91</u></b>	\$16.28	15.86%	<b><u>\$117.39</u></b>	(1.52)	-1.28%	<b><u>\$118.82</u></b>	\$1.43	1.22%

COMPANY: FLORIDA POWER & LIGHT COMPANY

SCHEDULE E10

	<u>CURRENT</u>	<u>PRELIMINARY</u>	<u>DIFFERENCE</u>		<u>PRELIMINARY</u>	<u>\$</u>	<u>%</u>
	<u>MAY 2008 - JUL 2008</u>	<u>JAN 2009 - MAY 2009</u>	<u>\$</u>	<u>%</u>	<u>JUN 2009 - DEC 2009</u>		
BASE	\$39.37	\$39.37	\$0.00	0.00%	\$40.76	\$1.39	3.53%
FUEL	\$52.27	\$71.07	\$18.80	35.97%	\$71.07	\$0.00	0.00%
CONSERVATION	\$1.45	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%
CAPACITY PAYMENT	\$5.46	\$7.97	\$2.51	45.97%	\$7.97	\$0.00	0.00%
ENVIRONMENTAL	\$0.40	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%
STORM RESTORATION SURCHARGE	<u>\$1.11</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>
SUBTOTAL	\$100.06	\$121.37	21.31	21.30%	\$122.76	\$1.39	1.15%
GROSS RECEIPTS TAX	<u>\$2.57</u>	<u>\$3.11</u>	<u>0.54</u>	<u>21.01%</u>	<u>\$3.15</u>	<u>\$0.04</u>	<u>1.29%</u>
<b>TOTAL</b>	<b><u>\$102.63</u></b>	<b><u>\$124.48</u></b>	21.85	21.29%	<b><u>\$125.91</u></b>	\$1.43	1.15%

COMPANY: FLORIDA POWER & LIGHT COMPANY

SCHEDULE E-10

	CURRENT	MIDCOURSE	DIFFERENCE		PRELIMINARY	DIFFERENCE		PRELIMINARY	DIFFERENCE	
	MAY 08 - JUL 08	CORRECTION AUG 08 - DEC 08	\$	%	JAN 09 - MAY 09	\$	%	JUN 09 - DEC 09	\$	%
BASE	\$39.37	\$39.37	\$0.00	0.00%	\$39.37	\$0.00	0.00%	\$40.76	\$1.39	3.53%
FUEL	\$52.27	\$60.21	\$7.94	15.19%	\$67.61	\$7.40	12.29%	\$67.61	\$0.00	0.00%
CONSERVATION	\$1.45	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%
CAPACITY PAYMENT	\$5.46	\$5.46	\$0.00	0.00%	\$7.97	\$2.51	45.97%	\$7.97	\$0.00	0.00%
ENVIRONMENTAL	\$0.40	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%
STORM RESTORATION SURCHARGE	<u>\$1.11</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>
SUBTOTAL	\$100.06	\$108.00	\$7.94	\$0.15	\$117.91	9.91	9.18%	\$119.30	\$1.39	1.18%
GROSS RECEIPTS TAX	<u>\$2.57</u>	<u>\$2.77</u>	<u>\$0.20</u>	<u>7.78%</u>	<u>\$3.02</u>	<u>0.25</u>	<u>9.03%</u>	<u>\$3.06</u>	<u>\$0.04</u>	<u>1.32%</u>
<b>TOTAL</b>	<b><u>\$102.63</u></b>	<b><u>\$110.77</u></b>	<b>\$8.14</b>	<b>7.93%</b>	<b><u>\$120.93</u></b>	<b>10.16</b>	<b>9.17%</b>	<b><u>\$122.36</u></b>	<b>\$1.43</b>	<b>1.18%</b>

COMPANY: FLORIDA POWER & LIGHT COMPANY

SCHEDULE E10

	CURRENT	MIDCOURSE	DIFFERENCE		PRELIMINARY	DIFFERENCE		PRELIMINARY	DIFFERENCE	
	MAY 08 - JUL 08	CORRECTION AUG 08 - DEC 08	\$	%	JAN 09 - MAY 09	\$	%	JUN 09 - DEC 09	\$	%
BASE	\$39.37	\$39.37	\$0.00	0.00%	\$39.37	\$0.00	0.00%	\$40.76	\$1.39	3.53%
FUEL	\$52.27	\$56.95	\$4.68	8.95%	\$69.03	\$12.08	21.21%	\$69.03	\$0.00	0.00%
CONSERVATION	\$1.45	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%	\$1.45	\$0.00	0.00%
CAPACITY PAYMENT	\$5.46	\$5.46	\$0.00	0.00%	\$7.97	\$2.51	45.97%	\$7.97	\$0.00	0.00%
ENVIRONMENTAL	\$0.40	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%	\$0.40	\$0.00	0.00%
STORM RESTORATION SURCHARGE	<u>\$1.11</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$1.11</u>	<u>\$0.00</u>	<u>0.00%</u>
SUBTOTAL	\$100.06	\$104.74	\$4.68	\$0.09	\$119.33	14.59	13.93%	\$120.72	\$1.39	1.16%
GROSS RECEIPTS TAX	<u>\$2.57</u>	<u>\$2.69</u>	<u>\$0.12</u>	<u>4.67%</u>	<u>\$3.06</u>	<u>0.37</u>	<u>13.75%</u>	<u>\$3.10</u>	<u>\$0.04</u>	<u>1.31%</u>
<b>TOTAL</b>	<b><u>\$102.63</u></b>	<b><u>\$107.43</u></b>	<b>\$4.80</b>	<b>4.68%</b>	<b><u>\$122.39</u></b>	<b>14.96</b>	<b>13.93%</b>	<b><u>\$123.82</u></b>	<b>\$1.43</b>	<b>1.17%</b>

FUEL RECOVERY FACTORS BY RATE SCHEDULE  
 AUGUST 2008 - DECEMBER 2008

GROUP	RATE SCHEDULE	FUEL RECOVERY FACTOR (¢/kWh)
A	RS-1 first 1,000 kWh all additional kWh	6.815 7.815
A	GS-1, SL-2, GSCU-1, WIES-1	7.152
A-1	SL-1, OL-1, PL-1	7.058
B	GSD-1	7.152
C	GSLD-1, CS-1	7.144
D	GSLD-2, CS-2, OS-2, MET	7.093
E	GSLD-3, CS-3	6.830
A	RST-1, GST-1 ON-PEAK OFF-PEAK	7.611 6.952
B	GSDT-1, CILC-1(G), HLFT-1 (21-499 kW) ON-PEAK OFF-PEAK	7.611 6.952
C	GSLDT-1, CST-1, HLFT-2 (500-1,999 kW) ON-PEAK OFF-PEAK	7.603 6.945
D	GSLDT-2, CST-2, HLFT-3 (2,000+ kW) ON-PEAK OFF-PEAK	7.561 6.907
E	GSLDT-3, CST-3, CILC-1(T), ISST-1(T) ON-PEAK OFF-PEAK	7.268 6.639
F	CILC-1(D), ISST-1(D) ON-PEAK OFF-PEAK	7.542 6.889

SEASONAL DEMAND TIME OF USE RIDER (SDTR)  
FUEL RECOVERY FACTORS

ON PEAK: JUNE 2008 THROUGH SEPTEMBER 2008 – WEEKDAYS 3:00 PM TO 6:00 PM  
OFF PEAK: ALL OTHER HOURS

GROUP	OTHERWISE APPLICABLE RATE SCHEDULE	SDTR FUEL RECOVERY FACTOR
B	GSD(T)-1	
	ON-PEAK	7.642
	OFF-PEAK	7.001
C	GSLD(T)-1	
	ON-PEAK	7.634
	OFF-PEAK	6.994
D	GSLD(T)-2	
	ON-PEAK	7.592
	OFF-PEAK	6.956

Note: All other months served under the otherwise applicable rate schedule.