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: November 13, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Barrett, Lester, Mouring) MCB PL M ALM
Division of Engineering (Matthews, Vickery)
Office of the General Counsel (Barrera, Mapp, Young)

RE: Docket No. 140001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor.

AGENDA: 11/25/14 – Regular Agenda – Post-Hearing Decision – Participation is Limited to Commissioners and Staff

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

As part of the continuing fuel and purchased power adjustment and generating performance incentive factor clause proceedings, an administrative hearing was held on October 22, 2014. At the hearing, the Commission, by bench decision, ruled on the stipulated issues, which included all issues for Tampa Electric Company, Gulf Power Company, Florida Power and Light Company, and Florida Public Utilities Company. Although the Commission approved some stipulated issues for Duke Energy Florida, Inc. (Duke or Company), at the October 22, 2014 hearing, testimony was heard on Issues 1C, 10, and 11. No parties filed briefs.

Issue 1C addresses whether Duke has made the appropriate adjustments to its fuel costs to account for replacement power costs associated with the transformer fire that occurred at Duke's Bartow unit in April 2014. Issue 10 addresses the appropriate total fuel true-up to be collected or refunded in 2015 fuel factors and is the sum of the final true-up for 2013 and the actual/estimated true-up for 2014. Issue 11 addresses the appropriate 2015 projected fuel cost for calculation of Duke's 2015 fuel factors. These issues were not included in the bench decision so that the refunds and adjustments required by the Revised and Restated Stipulation and Settlement Agreement (RRSSA), which the Commission approved by Order No. PSC-13-0598-FOF-EI,[1] could be verified.

The Commission has jurisdiction over this subject matter pursuant to the provisions of Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

[1] See Order No. PSC-13-0598-FOF-EI, issued November 12, 2013, in Docket No. 130208-EI, In re: Petition for limited proceeding to approve revised and restated stipulation and settlement agreement by Duke Energy Florida, Inc. d/b/a Duke Energy.

Discussion of Issues

Issue 1C: Has Duke made appropriate adjustments, if any are needed, to account for replacement power costs associated with April 2014 forced outage (transformer fire) at the Bartow Unit? If appropriate adjustments are needed and have not been made, what adjustment(s) should be made?

Recommendation: Yes. Duke has removed approximately $12.7 million from retail fuel expense, which is the appropriate adjustment to account for replacement power costs associated with the April 2014 forced outage (transformer fire) at the Bartow unit. (Matthews, Lester, Barrett)

Position of the Parties

DEF: Yes, DEF chose to reduce retail fuel expense thereby removing the impact of the replacement power to retail customers.

OPC: At this time, the OPC is in agreement with the position taken by Duke that the costs associated with the replacement power associated with the Bartow transformer fire in April 2014 should not be passed on to the customers. Duke should demonstrate at the hearing that these costs have indeed been withheld from requested fuel cost recovery.

FIPUG: Replacement power costs associated with the Bartow transformer fire (April 2014) should not be paid for by ratepayers.

FRF: Agree with OPC.

PCS: PCS agrees with the Office of Public Counsel.

Staff Analysis: On April 21, 2014, a transformer fire occurred at Duke's Bartow unit. As a result of the fire, Duke had to purchase replacement power to make up for the power not being generated at the Bartow combined cycle plant. Witness Foster stated that Duke incurred replacement power costs of approximately $12.7 million ($12.9 million system). (TR 415) Rather than including these costs for replacement power in its request for fuel cost recovery, Duke made an adjustment to remove these amounts, thereby shielding the impact of this outage from its retail customers. Exhibit TGF-2, sponsored by Duke witness Foster, shows the $12.7 million adjustment. (EXH 23) Witness Foster testified that although Duke has agreed that it will never submit the costs incurred as a result of the outage for recovery, it does not admit or address imprudence by so doing. (TR 416)

As noted above, the fire that occurred at Duke's Bartow plant required the Company to incur replacement power costs of approximately $12.7 million ($12.9 million system). Duke is not seeking to recover these costs in this clause proceeding or in any other forum. (TR 416-417) The OPC cross-examined Duke witness Foster, primarily to confirm the entries Duke made on its schedules to account for the $12.7 million ($12.9 million system) adjustment. (TR 416; EXH 71)

Staff has reviewed Duke's filings and verified that the costs associated with the replacement power of approximately $12.7 million has been removed from retail fuel expenses. As such, staff recommends that Duke has made the appropriate adjustments to account for replacement power costs associated with the April 2014 forced outage (transformer fire) at the Bartow unit.

Issue 10: What are the appropriate total fuel adjustment true-up amounts to be collected/refunded from January 2015 to December 2015?

Recommendation: Given the 2013 final true-up of an over-recovery of $27,234,093 and the 2014 actual/estimated true-up of an under-recovery of $100,906,296, the appropriate amount to be collected by Duke in 2015 is a net under-recovery of $73,672,203. Duke has correctly made the necessary adjustments and refunds pursuant to the Revised and Restated Stipulation and Settlement Agreement that the Commission approved by Order No. PSC-13-0598-FOF-EI. (Lester, Barrett)

Position of the Parties

DEF: $73,672,203 under-recovery.

OPC: The cost recovery amounts should reflect the position taken by OPC in the company specific issues. For Duke, the Commission must also insure that 100% of the refunds due customers under the 2012 and 2013 Settlement agreements are flowed through to customers. Further, the costs associated with the replacement power associated with the Bartow transformer fire in April 2014 should not be passed on to the customers. Duke should demonstrate at the hearing that these costs have indeed been withheld from requested fuel cost recovery.

FIPUG: FIPUG's prehearing position does not address this issue.

FRF: Agree with OPC.

PCS: PCS agrees with the Office of Public Counsel.

Staff Analysis: Duke's final true-up for 2013 is an over-recovery of $27,234,093. According to Duke witness Foster, this amount is affected by Paragraphs 6.a, 7.c, and 7.d of the RRSSA. Paragraph 6.a required a refund of $129 million to retail ratepayers in 2013 through the fuel clause. The effect of this refund is included in the calculation of the 2013 true-up. (TR 356, 360-361, 400-403; EXH 19, p. 1, 3; EXH 71 p. 3, 46, 48)

Paragraph 7.c required Duke to credit the retail allocation of the Nuclear Electric Insurance Limited (NEIL) settlement amount through the fuel clause. Witness Foster testified that Duke made the adjustment, approximately $490 million, which was included in the calculation of the 2013 true-up balance. (TR 361-362, 393, 397-400; EXH 69, p. 5; EXH 70; EXH 19, p. 3, 7; EXH 71, p. 45-46, 50)

Paragraph 7.d allowed Duke to collect $326 million previously credited in the fuel clause for NEIL proceeds. Witness Foster testified that this amount is inherently included in the 2013 true-up calculation, with the net effect of Paragraphs 7.c and 7.d being a final NEIL adjustment of a refund of approximately $163 million. (TR 362, 413; EXH 69, p. 5; EXH 19, p. 6)

The 2014 actual/estimated true-up is an under-recovery of $100,906,296. (TR 404, EXH 23, p. 3; EXH 24, p.5; EXH 71, p. 3) Witness Foster testified that this amount is affected by Paragraphs 6.a, 7.a, 7.c, and 7.d of the RRSSA. The effect of the refund of $129 million in 2014, as required by Paragraph 6.a, is included in the 2014 actual/estimated true-up calculation. Also included, for purposes of calculating the 2014 actual estimated true-up amount, is a $10 million refund, allocated 94 percent to residential customers and 6 percent to general service non-demand customers. This refund was required by Paragraph 6.a. (TR 369-370, 393, 408; EXH 23, p. 3; EXH 71, p. 40)

Paragraph 7.a allowed Duke to increase fuel rates by $1.00 per mWh in 2014 for the accelerated recovery of carrying charges associated with the CR3 regulatory asset and requires that the increase be added to secondary metering consistent with the normal fuel projection process. Pursuant to Paragraph 7.a, Duke removed the revenue associated with this change in calculating the 2014 actual/estimated true-up. This amount corresponds to the actual/estimated mWh sales for 2014. (TR 369, 371, 404-408; EXH 23, p. 3-4; EXH 69, p. 3; EXH 71, p. 40-41)

Pursuant to Paragraph 7.a of the RRSSA, revenue collected under this provision applies toward early recovery of the CR3 regulatory asset. Witness Foster provided a late-filed exhibit showing the actual/estimated AFUDC on the CR3 regulatory asset, fuel revenue collected based on Paragraph 7.a, and the amount to be applied to the AFUDC on the regulatory asset in 2014. The total amount of the regulatory asset as of September 2014 is $1.405 billion. Revenue collected pursuant to Paragraph 7.a reduces, but does not eliminate, the carrying cost on the regulatory asset. (EXH 72) The amounts for 2014 are presented below.

CR3 Regulatory Asset AFUDC and Early Recovery		
		in millions
1	AFUDC on CR3 Regulatory Asset	$74.60
2	Fuel Revenue ($1.00/mWh)	$38.50
3	Less Income Tax (38.575%)	($14.80)
4	Early Recovery Applied to CRC Regulatory Asset	$23.60
5	Total CR3 Regulatory Asset (as of Sep 2014)	$1,405
Rows 1 through 4: Actual Jan-Sep, Estimated Oct-Dec 2014		
Source: EXH 72		

As noted above, the effects of Paragraphs 7.c and 7.d are included in the calculation of the 2013 true-up amount. (TR 371) With the over-recovery of $27,234,093 for 2013 and the actual/estimated under-recovery of $100,906,296 for 2014, the net true-up is an under-recovery of $73,672,203. (TR 404) Staff recommends this amount as appropriate for inclusion in the calculation of 2015 fuel factors. Staff believes Duke has correctly made the necessary adjustments and refunds pursuant to the RRSSA.

Issue 11: What are the appropriate projected total fuel and purchased power cost recovery amounts for the period January 2015 through December 2015?

Recommendation: The appropriate projected total fuel and purchased power cost recovery amount for Duke is $1,638,735,421. Duke has correctly made the necessary adjustments and refunds pursuant to the Revised and Restated Stipulation and Settlement Agreement that the Commission approved by Order No. PSC-13-0598-FOF-EI. (Lester, Barrett)

Position of the Parties

DEF: $1,638,735,421.

OPC: The cost recovery amounts should reflect the position taken by OPC in the company specific issues. For Duke, the Commission must also insure that 100% of the refunds due customers under the 2012 and 2013 Settlement agreements are flowed through to customers. Further, the costs associated with the replacement power associated with the Bartow transformer fire in April 2014 should not be passed on to the customers. Duke should demonstrate at the hearing that these costs have indeed been withheld from requested fuel cost recovery.

FIPUG: FIPUG's prehearing position does not address this issue.

FRF: Agree with OPC.

PCS: PCS agrees with the Office of Public Counsel.

Staff Analysis: Duke witness Foster testified that Paragraphs 6.a, 6.b, and 7.a all impact the projection filing for the 2015 fuel factors. Paragraph 6.a requires Duke to refund to residential and general service non-demand customers $10 million in 2015 through the fuel clause, allocated 94 percent to residential customers and 6 percent to general service non-demand customers. Witness Foster testified that Duke's 2015 fuel factors include this refund. (TR 378-379; EXH 24, p. 107; EXH 71, p. 8)

Paragraph 6.b requires Duke to refund $40 million to retail ratepayers in 2015 through the fuel clause. Witness Foster testified that Duke correctly included this refund in the calculation of 2015 fuel factors. (TR 380, 393, 405-406; EXH 24, p. 3, 7, 10)

Paragraph 7.a allows Duke to increase retail fuel rates by $1.00 per mWh in 2015. This provision is for early recovery of the CR3 regulatory asset. Pursuant to Paragraph 7.a, Duke added 0.10 cents per kWh to the fuel factor at secondary metering from which the other fuel factors were derived. (TR 376-377, 379, 395, 405; EXH 24, p. 10)

The appropriate projected amount for 2015 is $1,638,735,421. Staff recommends this amount as appropriate for inclusion in the calculation of 2015 fuel factors. Staff recommends that Duke has correctly made the necessary adjustments and refunds pursuant to the RRSSA.