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| State of FloridapscSEAL | Public Service CommissionCapital Circle Office Center ● 2540 Shumard Oak BoulevardTallahassee, Florida 32399-0850-M-E-M-O-R-A-N-D-U-M- |
| DATE: | November 23, 2021 |
| TO: | Office of Commission Clerk (Teitzman) |
| FROM: | Division of Accounting and Finance (Higgins)Division of Economics (Coston)Office of the General Counsel (Brownless, Osborn) |
| RE: | Docket No. 20210001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor. |
| AGENDA: | 12/07/21 – Regular Agenda – Interested Persons May Participate |
| COMMISSIONERS ASSIGNED: | All Commissioners |
| PREHEARING OFFICER: | Fay |
| CRITICAL DATES: | None |
| SPECIAL INSTRUCTIONS: | Recommendation A – Florida Power & Light Company. |

 Case Background

On November 9, 2021, Florida Power & Light Company (FPL or Company), filed for a mid-course correction (MCC Petition) of its 2022 fuel cost recovery factors. FPL’s currently-effective 2021 fuel factors were approved at the April 1, 2021, Commission Conference, and its factors effective January 2022 were approved at the November 2, 2021 Commission Hearing.[[1]](#footnote-1)

Underlying the approval of FPL’s 2022 factors was the Florida Public Service Commission’s (Commission) review of the Company’s projected 2022 fuel- and capacity-related service costs. These service costs are recovered through the fuel and capacity cost recovery factors that are set/reset annually in this docket. These cost recovery factors are usually effective for a period of 12 months. However, the Commission requires that if an investor-owned electric utility’s fuel or capacity cost recovery position is projected to exceed a specified range within the standard 12-month timeframe, the utility shall promptly notify the Commission by letter delivered to the Commission Clerk. In the instant case, under Rule 25-6.0424, Florida Administrative Code (F.A.C.), FPL is seeking to modify fuel cost recovery factors that were approved on November 2nd, but have yet to be charged to customers. Thus, at this point in time, it is contemplated that if approved, the proposed fuel factors addressed in this recommendation will be applied for an entire 12-month period.

***Mid-Course Corrections***

Mid-course corrections are used by the Commission between annual clause hearings whenever costs deviate from revenue by a significant margin. Under Rule 25-6.0424, F.A.C., which is commonly referred to as the Commission’s “mid-course correction rule,” a utility must notify the Commission whenever it expects to experience an under- or over-recovery of certain service costs greater than 10 percent. The notification of a 10 percent cost-to-revenue variance shall include a petition for mid-course correction to the fuel cost recovery or capacity cost recovery factors, or shall include an explanation of why a mid-course correction is not practical. The Commission’s mid-course correction rule and its codified procedures are further discussed later in this recommendation.

***FPL’s Petition for Mid-Course Correction***

On November 9, 2021, FPL filed its MCC Petition and supporting documentation proposing a mid-course correction of its fuel charges.[[2]](#footnote-2) Staff notes that for the purposes of this recommendation and unless otherwise noted, all figures are based on combined/merged FPL and (former) Gulf Power Company data, but singularly referred to as “FPL.”

Specifically, the Commission is being asked to approve an increase in fuel cost recovery charges/factors due to the Company now projecting a period-ending 2022 under-recovery of fuel costs that exceeds the 10 percent threshold. FPL has requested that the proposed revised fuel factors and associated tariffs become effective beginning with the first billing cycle of January 2022. The proposed increase to FPL’s currently-approved 2022 fuel charges is being driven by both actual and projected 2021 and 2022 fuel costs being greater than previously estimated. These cost differences are discussed further in Issue 1, while the proposed effective date of the (proposed) revised fuel factors is discussed further in Issue 2.

The Commission is vested with jurisdiction over the subject matter of this proceeding by the provisions of Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1:

 Should the Commission modify FPL’s currently-approved fuel factors for the purpose of addressing its currently-projected under-recovery of 2022 fuel costs?

Recommendation:

 Yes. Staff recommends the Commission approve adjustments to FPL’s currently-approved 2022 fuel factors to incorporate a projected period-ending 2022 under-recovery of fuel costs in the amount of $809,975,806. (Higgins)

Staff Analysis:

 FPL participated in the Commission’s most-recent fuel hearing which took place on November 2, 2021. Certain decisions rendered at the 2021 hearing set forth FPL’s fuel, purchased power, and capacity-related cost recovery factors to become effective with the first billing cycle of 2022. However, as discussed below, the currently-approved 2022 fuel cost recovery factors ˗ without modification ˗ are now projected to under-recover the Company’s 2022 fuel cost by greater than 10 percent.

This recommendation directly addresses fuel costs for years 2021 and 2022. Staff notes that FPL’s final 2020 fuel true-up was accounted for and incorporated in rates as part of the Company’s spring 2021 mid-course correction.[[3]](#footnote-3) With respect to Gulf, its final 2020 fuel true-up was considered at the November 2, 2021 Hearing.

The Company’s currently-approved 2022 capacity cost recovery factors are projected to remain sufficient to return the required amount of revenue, therefore no change is being sought through this mid-course correction process. Further, the Company’s petition and supporting documentation satisfies all filing requirements of Rule 25-6.0424(1)(b), F.A.C.[[4]](#footnote-4)

***FPL Mid-Course Correction***

The Company filed its MCC Petition on November 9, 2021.[[5]](#footnote-5) Preceding the filing of its MCC Petition and in accordance with the noticing requirement of Rule 25-6.0424(2), F.A.C., FPL filed letters on September 27, 2021, and October 15, 2021, informing the Commission that based on its then-latest future fuel cost estimations, it was projecting an under-recovery position of greater than 10 percent for the 2022 recovery period.[[6]](#footnote-6) In both instances, in analyzing settlement prices for natural gas, the Company determined that the continuing price volatility warranted deferring a decision as to whether to file for a mid-course correction of its fuel charges. However, in its second, or October letter, FPL stated that should it project an under-recovery that exceeds the 10 percent threshold based on forward natural gas settlement prices sourced (NYMEX) in early November, it would file a mid-course correction petition, and to minimize any associated bill impact, would request a January 2022 effective date. Based on the aforementioned November 2021 update, the Company determined that filing for a mid-course correction of its 2022 customer fuel charges would be required as the data indicated its projected cost recovery position (through December 2022) would be outside the 10 percent threshold set forth by Rule 25-6.0424, F.A.C.

As discussed in greater detail below, the projected 2022 under-recovery of fuel costs is directly associated with higher actual and re-projected natural gas prices than originally estimated.

***Projected 2021 Under-Recovery***

Accounting for the Company’s mid-course correction of its 2022 fuel charges essentially begins with its actual and projected under-recovery of fuel costs in 2021. The two primary projections of 2021 fuel costs are FPL’s *Petition for Approval of Fuel Cost Recovery and Capacity Cost Recovery Factors for January through December 2022* (Original 2022 Projection), and *Petition for Mid-Course Correction to its 2022 Fuel Adjustment Factors*.[[7]](#footnote-7) These documents were filed on September 3, 2021, and November 9, 2021, respectively. Staff notes that in general, a utility’s “actual/estimated” filing would contain the final current-year cost projection. However, in this instance, due to higher 2021 fuel prices being projected in the later portion of the year, FPL revised its 2021 actual/estimated true-up through its Original 2022 Projection filing. The revised 2021 actual/estimated true-up amount presented in the Original 2022 Projection is an under-recovery of $353,945,632. This amount was reviewed and included for 2022 recovery (Issue 10) during the November 2, 2021 Hearing.

Through its MCC Petition, FPL has revised its 2021 actual/estimated true-up a second time. The Company now projects to incur an additional under-recovery of fuel costs in the amount of $329,554,231 (in 2021). This additional, or incremental 2021 under-recovery is being proposed for recovery as part of this mid-course correction.

For reference, in its Original 2022 Projection filing, the Company projected that the delivered cost of natural gas for the months of August through December 2021 would average approximately $5.13 per million British thermal unit (MMBtu). However, as indicated through the MCC Petition, FPL now believes, based on a mix of actual and estimated data, that the cost of natural gas for those same months will average approximately $5.98 per MMBtu.[[8]](#footnote-8) This new projection represents a cost increase of 16.57 percent.

***Projected 2022 Under-Recovery***

FPL’s original/first 2022 fuel cost projection submitted to the Commission for the purposes of cost recovery was its Original 2022 Projection filing.[[9]](#footnote-9) This projection of 2022 natural gas costs was formulated using forward market data as of early August 2021. Using data sourced on August 2, 2021, FPL projected for calendar year 2022 an average natural gas cost of $5.03 per MMBtu. However, through its MCC Petition, FPL now projects based on forward market data as of early November 2021, that the average cost of natural gas in 2022 will be $5.81 per MMBtu.[[10]](#footnote-10) This new projection represents a cost increase of 15.51 percent.

In Table 1-1 below, staff displays the revenue requirements associated with the original and updated 2022 projections, as well as the components of the total mid-course correction true-up amount (estimated 2022 End-of-Period Total Net True-up).

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| **Table 1-1** |
| **Mid-Course Correction** |
| **Category** | **Original Projection****($)** | **Mid-Course****Projection****($)** | **Difference from Original Projection****(%)** |
| Total Fuel Revenue Requirement for 2022[[11]](#footnote-11) |  3,824,311,080  |  4,634,286,887 | 21.18 |
| Incremental 2021 Actual/Estimated True-Up | - |  (329,554,231) | - |
| 2022 True-Up | - |  (479,843,545) | - |
| Interest Provision | - |  (578,030) | - |
| Estimated 2022 End-of-Period Total Net True-up | - | (809,975,806) | - |

Sources: FPL’s Original 2022 Projection, Schedule E-1, and FPL’s MCC Petition, Schedule E1-B.

Following the methodology prescribed in Rule 25-6.0424, F.A.C., the mid-course percentage is equal to the estimated End-of-Period Total Net True-up amount, including interest, divided by the current period’s (in this instance, calendar year 2022) total actual and estimated jurisdictional fuel revenue applicable to period, or ($809,975,806) / $3,348,352,960.[[12]](#footnote-12) This calculation results in a mid-course correction level of (24.19) percent.

***Fuel Factor***

FPL’s currently-approved levelized 2022 fuel factor for non-time-of-use rates is 3.132 cents per kWh.[[13]](#footnote-13) The Company is requesting to increase the current levelized fuel factor for non-time-of-use rates to 3.795 cents per kWh, or by approximately 21 percent.

***Bill Impacts***

In Tables 1-2 and 1-3 below, staff displays the bill impacts of the MCC to typical residential customers using 1,000 kWh of electricity a month in FPL’s (pre-merger) service territory and FPL’s Northwest (former Gulf Power Company) service territory. Staff also discusses the impacts of the MCC on non-residential customers:

| **Table 1-2****(Pre-Merger) FPL Service Territory** |
| --- |
| **Monthly Residential Billing Detail at 1,000 kWh** |
| **Invoice Component** | **Currently-Approved Charges****for 2022****($)** | **Proposed New Charges for** **2022****($)** | **Current to Proposed Difference****($)** | **Current to Proposed Difference****(%)** |
| Base Charge | $75.82 | $75.82 | - | - |
| Fuel Charge | 28.22 | 34.87 | $6.65  | 23.56% |
| Conservation Charge | 1.34 | 1.34 | -  | - |
| Capacity Charge | 2.39 | 2.39 | - | - |
| Environmental Charge | 2.99 | 2.99 | - | - |
| Storm Protection Plan | 2.14 | 2.14 | - | - |
| Transition Rider | (1.98) | (1.98) | -  | - |
| Tax | 2.93 | 3.10  | 0.17  | 5.80% |
| **Total** | $113.85 | $120.67  | $6.82  | 5.99% |

Source: FPL MCC Petition, Schedule E-10.

***Bill Impacts - FPL’s Service Territory***

FPL’s currently-approved total residential charge for the first 1,000 kWh of usage for January through December 2022 is $113.85.[[14]](#footnote-14) If the Company’s mid-course correction proposal is approved, then the current total residential charge for the first 1,000 kWh of usage for January through December 2022 will be $120.67, an increase of approximately 5.99 percent. Concerning non-residential customers, FPL reported that bill increases based on average levels of usage for commercial customers would range from approximately 5.82 to 7.73 percent, and approximately 12.39 percent for industrial customers.[[15]](#footnote-15)

| **Table 1-3****FPL Northwest (former Gulf Power Company) Service Territory** |
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| **Monthly Residential Billing Detail at 1,000 kWh** |
| **Invoice Component** | **Currently-Approved Charges****for 2022****($)** | **Proposed New Charges for** **2022****($)** | **Current to Proposed Difference****($)** | **Current to Proposed Difference****(%)** |
| Base Charge | $75.82 | $75.82 | -  | - |
| Fuel Charge | 28.22 | 34.87 | $6.65  | 23.56% |
| Conservation Charge | 1.34 | 1.34 | -  | - |
| Capacity Charge | 2.39 | 2.39 | - | - |
| Environmental Charge | 2.99 | 2.99 | - | - |
| Storm Protection Plan | 2.14 | 2.14 | - | - |
| Storm Restoration Surcharge | 11.00 | 11.00 | -  | - |
| Transition Rider | 21.06 | 21.06 | -  | - |
| Tax | 3.82 | 4.00  | 0.18  | 4.71% |
| **Total** | $148.78 | $155.61  | $6.83  | 4.59% |

Source: FPL MCC Petition, Schedule E-10.

***Bill Impacts - FPL’s Northwest Service Territory***

FPL’s currently-approved Northwest total residential charge for the first 1,000 kWh of usage for January through December 2022 is $148.78.[[16]](#footnote-16) If the Company’s mid-course correction proposal is approved, the current total Northwest residential charge for the first 1,000 kWh of usage for January through December 2022 will be $155.61, an increase of 4.59 percent. Concerning non-residential customers, FPL reported that bill increases based on average levels of usage for commercial customers would range from approximately 4.37 to 6.20 percent. A figure associated with an industrial class was not identified.[[17]](#footnote-17)

***Tariffs and Noticing***

FPL’s proposed tariffs are shown on Appendix A to this recommendation. Staff notes that, in addition to the proposed fuel charges, the billing adjustment tariffs attached to this recommendation show the Commission-approved revisions to all other cost recovery clause factors (which are not at issue in this proceeding). FPL stated that it will provide notice of its request for a mid-course correction of fuel charges with its December customer bills. This topic is discussed further in Issue 2.

***Summary***

Staff recommends the Company’s fuel cost recovery factors be adjusted to reflect a projected end-of-year 2022 under-recovery of fuel cost in the amount of $809,975,806. Staff believes this treatment is appropriate as it fully comports with Rule 25-6.0424, F.A.C. Approving the MCC also works to more correctly align expected period costs with same or near period revenue. Further, as discussed in Issue 2, staff recommends the revised fuel factors become effective with the first billing cycle of January 2022.

**Conclusion**

Staff recommends the Commission approve adjustments to FPL’s currently-approved fuel factors to incorporate a projected period-ending 2022 under-recovery of fuel costs in the amount of $809,975,806.

Issue 2:

 If approved by the Commission, what is the appropriate effective date for FPL’s revised fuel cost recovery factors?

Recommendation:

 Staff recommends that the fuel cost recovery factors as shown on Appendix A become effective with the first billing cycle of January 2022. (Brownless, Coston)

Staff Analysis:

 FPL has requested that the revised fuel cost recovery factors become effective with the first billing cycle of January 2022.

Over the last 20 years in the Fuel Clause docket, the Commission has considered the effective date of rates and charges of revised fuel cost recovery factors on a case-by-case basis. The Commission has approved fuel cost recovery factor rate decreases effective sooner than the next full billing cycle after the date of the Commission’s vote, with the range between the vote and effective date being from 25 to 2 days. The rationale for that action being that it was in the customers’ best interests to implement the lower rate as soon as possible.[[18]](#footnote-18) With regard to fuel cost recovery factor/rate increases, the Commission has approved an effective date of the revised factors ranging from 14 to 29 days after the vote.[[19]](#footnote-19) In two of these cases, the Commission noted that the utility had given its customers 30 days’ written notice before the date of the vote that a fuel cost recovery factor increase had been requested and provided the proposed effective date of the higher fuel factors.[[20]](#footnote-20)

In the instant case, there are 27 days between the Commission’s vote on December 7th (2021) and the beginning of FPL’s January billing cycle (January 3, 2022).[[21]](#footnote-21) FPL has stated that during its last billing cycle of 2021, all customers are being notified via eBill or printed bill insert that their rates are increasing as of January 1, 2022. The eBill and printed bill insert direct the customers to a website which gives the current and proposed rates for all customer classes. Further, all large business customer classes in the Northwest territory will be contacted by their account managers either by phone or email regarding the rate increase. Finally, the information provided clearly identifies the rates that have already been approved in FPL’s base rate case, Docket No. 20210015-EI, and the fuel charge rates at issue in this docket. [[22]](#footnote-22)

**Conclusion**

Based on the above, staff recommends that the fuel cost recovery factors as shown on Appendix A become effective with the first billing cycle of January 2022.

Issue 3:

 Should this docket be closed?

Recommendation:

 No. The 20210001-EI docket is an on-going proceeding and should remain open. (Brownless)

Staff Analysis:

 The fuel docket is on-going and should remain open.



 

1. Order No. PSC-2021-0142-PCO-EI, issued April 21, 2021, in Docket No. 20210001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*, and the order stemming from the Commission’s November 2, 2021, Fuel Clause Hearing is pending. [↑](#footnote-ref-1)
2. Document No. 12592-2021. [↑](#footnote-ref-2)
3. Order No. PSC-2021-0142-PCO-EI. [↑](#footnote-ref-3)
4. Document Nos. 12592-2021 and 12677-2021. [↑](#footnote-ref-4)
5. Document No. 12592-2021. [↑](#footnote-ref-5)
6. Document Nos. 11574-2021 and 12168-2021, respectively. [↑](#footnote-ref-6)
7. Document Nos. 10091-2021 and 12592-2021, respectively. [↑](#footnote-ref-7)
8. Document Nos. 12592-2021 and 12677-2021. [↑](#footnote-ref-8)
9. Document No. 10091-2021. [↑](#footnote-ref-9)
10. See Document No. 12677-2021, FPL’s Responses to Staff’s Fourth Data Request, No. 1, Attachment I, page 1 of 2. [↑](#footnote-ref-10)
11. Includes the (first) revised 2021 Actual/Estimated True-Up. [↑](#footnote-ref-11)
12. The total actual and estimated jurisdictional fuel revenue applicable to period is net of the prior period true-up, generating performance incentive, Asset Optimization Mechanism amount, and Solar Together Credit. [↑](#footnote-ref-12)
13. Rate approved at the November 2, 2021, Fuel Clause (Docket No. 20210001-EI) Hearing; order pending issuance. [↑](#footnote-ref-13)
14. Rate approved at the November 2, 2021, Fuel Clause (Docket No. 20210001-EI) Hearing; order pending issuance. [↑](#footnote-ref-14)
15. Document No. 12677-2021, filed November 12, 2021, FPL’s Responses to Staff’s Fourth Data Request, No. 5. [↑](#footnote-ref-15)
16. Rate approved at the November 2, 2021, Fuel Clause (Docket No. 20210001-EI) Hearing; order pending issuance. [↑](#footnote-ref-16)
17. Document No. 12677-2021, filed November 12, 2021, FPL’s Responses to Staff’s Fourth Data Request, No. 5. [↑](#footnote-ref-17)
18. Order No. PSC-08-0825-PCO-EI, issued December 22, 2008, in Docket No. 080001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-09-0254-PCO-EI, issued April 27, 2009, in Docket No. 090001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor;* Order No. PSC-11-0581-PCO-EI, issued on December 19, 2011, in Docket No. 110001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-12-0342-PCO-EI, issued July 2, 2012, in Docket No. 120001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-2012-0082-PCO-EI, issued February 24, 2012, in Docket No. 120001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-15-0161-PCO-EI, issued April 30, 2015, in Docket No. 150001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-2018-0313-PCO-EI, issued June 18, 2018, in Docket No. 20180001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order PSC-2020-0154-PCO-EI, issued May 14, 2020, in Docket No. 20200001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.*  [↑](#footnote-ref-18)
19. Order No. PSC-03-0381-PCO-EI, issued March 19, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-03-0382-PCO-EI, issued March 19, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-03-0400, issued March 24, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-03-0849-PCO-EI, issued July 22, 2003, in Docket No. 030001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*; Order No. PSC-09-0213-PCO-EI, issued April 9, 2009, in Docket No. 090001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor;* Order No. PSC-2019-0109-PCO-EI, issued March 22, 2019, in Docket No. 20190001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.* [↑](#footnote-ref-19)
20. Order No. PSC-09-0213-PCO-EI; Order No. PSC-2019-0109-PCO-EI. [↑](#footnote-ref-20)
21. Document No. 12677-2021, filed November 12, 2021, FPL’s Responses to Staff’s Fourth Data Request, No. 7. [↑](#footnote-ref-21)
22. Document No. 12677-2021, FPL’s Responses to Staff’s Fourth Data Request, No. 6. [↑](#footnote-ref-22)