BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.	DOCKET NO. 080001-EI ORDER NO. PSC-08-0495-PCO-EI ISSUED: August 5, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

ORDER GRANTING A MID-COURSE CORRECTION TO PROGRESS ENERGY FLORIDA, INC.

BY THE COMMISSION:

Background

On May 30, 2008, Progress Energy Florida, Inc. (PEF or Company) filed a Request for Expedited Approval of Modifications to its Tariff Sheets to Eliminate the Storm Recovery Cost Surcharge and for a Mid-course Correction to its Fuel Cost Recovery Factor. We had previously approved the fuel cost recovery factor for PEF by Order No. PSC-080030-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.

By Order No. PSC-06-0772-PAA-EI,[1] we approved a settlement that authorized PEF to extend its previously authorized storm cost recovery surcharge through the last billing cycle in July 2008. The purpose of the surcharge extension is to generate additional funds to replenish the storm reserve. The monthly storm cost recovery surcharge is $3.61 for a residential customer using 1,000 kWh.

PEF 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: 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

[1] Order No. PSC-06-0772-PAA-EI, issued September 18. 2006, in Docket No. 041272-EI, In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

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.

Mid-course corrections are part of the fuel proceeding. They are considered preliminary procedural decisions, and we take testimony regarding those costs in our 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. Our jurisdiction to consider fuel clause proceedings derives from our authority to set fair and reasonable rates, Section 366.05, Florida Statutes.

FIPUG's Motion to Dismiss or Abate

On June 9, 2008, FIPUG filed a Motion to Dismiss or Alternatively to Abate the Mid-course Correction proceeding and schedule a hearing. On June 16, 2008, PEF filed a Response in opposition to FIPUG's Motion to Dismiss Mid-Course Correction. At our July 1, 2008, Agenda Conference, FIPUG acknowledged that it did not wish to present oral argument regarding its motion, but rather would present its position during the substantive portion of our discussion.

In its written motion, FIPUG asserts that PEF's Petition for Mid-course Correction did not meet the criteria for granting the mid-course correction. Alternatively, FIPUG asks that we abate our decision on mid-course corrections until PEF 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 the public to receive a fair understanding of the rate increase.

FIPUG states that while PEF petitioned for a mid-course correction of $213 million, the fuel cost report filed by PEF for April 2008 shows that PEF has collected 2008 fuel charges in excess of 2008 fuel costs by $34.5 million. FIPUG contends that our 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 the highly volatile commodity futures trading market, has brought potential hardship to Florida consumers. 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 argues that customers are entitled to a hearing to present testimony about the impact of the unanticipated increase on their operations. In its motion, FIPUG also questions whether PEF delayed reporting fuel cost increases until after proposed legislatively-mandated rate increases were in place. FIPUG, in asking why fuel cost increases were not reported earlier than May 30, wonders if it could be because of PEF's legislative activity. FIPUG asserts this delay in reporting under-recovery requires a dismissal of the petition.

PEF requests that we deny FIPUG's motion. PEF asserts that its petition complies with the mid-course correction orders, Order Nos. 13694 and PSC-07-0333-PAA-EI. PEF asserts that

Order No. PSC-07-0333-PAA-EI requires a utility to notify us 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). According to PEF, its mid-course correction petition includes a $16,807,030 under-recovery of 2007 fuel costs and a $195,927,841 under-recovery of 2008 fuel costs that PEF projects based on current information. PEF states that its total projected under-recovery for 2008 is more than 10% of the current projection of 2008 Jurisdictional Fuel Revenue Applicable-to-Period. PEF states that its calculation of the total under-recovery of $212,822,859 is calculated in accordance with our Order No. PSC-07-0333-PAA-EI. PEF concludes that because its calculations indicate it will exceed the 10% threshold, it must notify us, and the petition for mid-course correction satisfies PEF's reporting responsibility.

PEF notes that FIPUG's motion alleges no deviation from the computational requirements of our order. PEF argues that, because it has correctly calculated its projections according to Order No. PSC-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. PEF also responds stating FIPUG indirectly questions our policies on fuel hedging and on the fuel cost recovery in general. FIPUG's questions, according to PEF, do not support FIPUG's motion. PEF asserts that because FIPUG's motion does not allege any violation of our orders on mid-course corrections, FIPUG's motion to dismiss should be denied.

PEF next addresses FIPUG's alternate request to abate until a hearing is conducted on the proposed mid-course correction. According to PEF, we have not traditionally held hearings prior to ruling on mid-course corrections. PEF asserts that to do so in this instance would be unnecessary and inappropriate. PEF 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. PEF further asserts that FIPUG's concern that it be permitted to present its views on the mid-course correction can be addressed at our July 1, 2008, Agenda Conference, if we permit parties to participate. PEF'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. PEF 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.

We find PEF's interpretation of Order No. PSC-07-0333-PAA-EI to be correct, and accordingly deny FIPUG's Motion to Dismiss. PEF has calculated its under-recovery as directed by Order No. PSC-07-0333-PAA-EI. PEF included the actual under-recovery it had experienced in 2007 that was not included in this year's fuel factor. PEF also reprojected its revenues and expenses, as directed by that same order. Our review and analysis of the need for a mid-course correction are discussed more specifically below.

The 2007 order clarifying the appropriate mechanism to calculate over and under-recoveries is not new to us, as FIPUG appears to suggest. In 2003, we had before us several mid-course correction petitions from PEF, Florida Power & Light Company (FPL) and Tampa

Electric Company (TECO) which were very similar factually. In Order No. PSC-03-0400-PCO-EI, TECO re-projected its fuel costs using updated assumptions to develop future cost and revenue estimates. We 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 TECO may collect through its approved fuel factors will be refunded to TECO's ratepayers with interest." And in Order No. PSC-03-0382-PCO-EI, we were presented with PEF's reprojected revenues and expenses, as well as a prior year's under-recovery. We 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 PEF's request to include part of the historical year under-recovery, we 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, we approved FPL's mid-course correction which included historical year (2002) under-recovery amounts and reprojected current year (2003) revenues and expenses in Order No. PSC-03-0381-PCO-EI.

Having determined that FIPUG's motion to dismiss be denied, we turn to its alternate request for abatement. The purpose of Order No. 13694, which requires notification of mid-course corrections, is to protect the ratepayers. In previous orders, we 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, FIPUG's concerns as set forth in its motion can be adequately addressed in the normal course of the fuel docket. First, we complete preliminary review of the petition testing the reasonableness and accuracy of actual and revised data supporting PEF's position (Order No. PSC-01-1665-PAA-EI at p. 5). Second, the parties, including FIPUG, have a complete opportunity in our 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 we grant a mid-course correction now, but later the Company becomes over-recovered, PEF must refund customers by reducing the fuel factor for 2009. Fourth, we allowed FIPUG and other parties to address their concerns at our July 1, 2008, Agenda Conference.

In making the decision to abate or not, we weigh the timing of a hearing on the mid-course correction with the need to protect ratepayers. We find that ratepayers would be better served by our evaluation of the mid-course correction petition now and our consideration of the substantive merits of witness's testimony at our November fuel hearing. A hearing on the mid-course correction petition prior to the mid-course correction going into affect would delay and perhaps prohibit the mid-course correction from occurring. It is better that we evaluate the information we have before us 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. Accordingly, we deny FIPUG's Motion to Dismiss or Alternately to Abate the proceedings. PEF 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.

<u>PEF's Request to Eliminate Storm Cost Recovery Surcharge</u>

In its petition, PEF proposes that the storm cost recovery surcharge (SCRC) be eliminated effective with the last billing cycle in July 2008. This request is in compliance with the provisions of the stipulation that was approved in Order No. PSC-06-0772-PAA-EI.[2] Paragraph 2 provides for an extension of the SCRC through the last billing cycle in July 2008. After the last billing cycle in July 2008 is completed, the stipulated extension of the SCRC expires. Therefore, PEF's tariffs need to be revised to eliminate the SCRC from future billing cycles beginning in August 2008. The monthly reduction for a residential customer using 1,000 kWh is $3.61.

<u>PEF's Petition for Mid-course Correction</u>

PEF's estimated December 2008 End-of-Period Total Net True-up is an under-recovery of $212,822,858. PEF based its petition on that estimate's percent of its 2008 Estimated Jurisdictional Fuel Revenue Applicable to Period, $1,963,062,394. The under-recovery percentage is the ratio of these two numbers, or 10.84%. The under-recovery is comprised of the difference between the estimated and actual December 2007 End-of-Period Total Net True-ups ($16,807,030), the estimated 2008 interest on 2007's difference and 2008's monthly balances ($87,987), and the difference between 2008's estimated revenues and estimated expenses ($195,927,840). Table 1 below presents the calculation of the under-recovery percent.

[2] Order No. PSC-06-0772-PAA-EI, issued September 18, 2006, in Docket No. 041272-EI, <u>In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.</u>

TABLE 1 – CALCULATION OF UNDER-RECOVERY PERCENT	
Component	Dollars
2007 True-up	-$16,807,030
2008 Projected Under-recovery	-$195,927,840
2008 Interest	-$87,987
Estimated 12/08 End of Period Total Net True Up	-$212,822,857
Jurisdictional Fuel Revenue Applicable to 2008	$1,963,062,394
2008 Mid Course Percent	10.84%
Source: Schedule E1-B, Mid-Course Petition	

PEF's estimated under-recovery for 2008 will occur in the last 7 months of 2008. In its September 2007 projection filing, PEF projected that it would have an over-recovery balance of $169,376,547 at the beginning of 2008 and was expected to net to zero by the end of the year. PEF's End of Period True-up estimate for April 2008 was an over-recovery of $166,803,881. However, PEF's actual April 2008 End-of-Period Total Net True-up was an over-recovery of $116,803,365. Based on PEF's mid-course petition, PEF's July 2008 End of Period Total Net True-up estimate is expected to be an under-recovery of $77,528,938, and the December 2008 estimate is expected to be an under-recovery of $212,822,858 (July's estimate is the amount to be collected via the mid-course correction between the beginning of August and the end of December). Stated in percentage terms, the April over-recovery of 5.95% will give way to a July under-recovery of 3.95%, and the under-recovery will increase to 10.84% by year-end 2008 if the fuel factors remain at their current levels and PEF's mid-course cost and sales assumptions are correct.

According to PEF, 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. PEF originally estimated its 2008 fuel costs in mid-2007 and based its mid-course request on fuel price forecasts as of April 21, 2008. We note that oil and gas markets are volatile and futures prices change from day to day.

PEF states that fuel prices have increased due to increased demand for energy around the world, notably in China and India. PEF asserts that the following factors have affected fuel prices:

- Crude oil prices have increased due to falling U.S. inventories, increased demand based on world economic growth, low OPEC spare production capacity, and geopolitical risks. Higher crude oil prices directly affect the price of heavy fuel oil and diesel fuel.

- Delivered coal prices have increased because higher diesel fuel prices have increased transportation costs and because of unexpected supply disruptions. With the declining value of the dollar and increased demand for coal from Europe and Asia, U.S. coal exports have increased, which tightens supplies and increases prices.

- Natural gas prices have increased due to growing demand for gas for electric generation and higher prices in Europe and Asia, which divert LNG cargoes from the U.S and reduce domestic supply. Additional reasons for higher natural gas prices are that higher oil prices increase demand for gas due to fuel switching, storage levels are somewhat lower than the year-ago level, and the extended outage of Independence Hub, an important source of gas in the Gulf of Mexico.

PEF asserts that it has endeavored to reduce 2008 fuel costs and fuel price volatility. PEF states that for 2008, it hedged 72% of the volume of its gas purchases and 71% of the volume of its oil purchases. According to PEF, this hedging has generated, on an actual and mark to market basis, a significant amount of gains. PEF claims that these gains, which are netted against fuel costs, reduce, but do not eliminate, the impact of higher fuel prices. For 2008, PEF's states that its actual and estimated (mark to market) hedging gains for gas and oil are $267,501,928 and $129,613,015, respectively. We are aware that given volatile markets, the results vary from day to day. We note that the goal of PEF's hedging program is volatility control, such that gains or losses can result in a given period. We will review in a more comprehensive way the actions taken by PEF to mitigate fuel costs and price volatility as part of our November fuel clause proceeding.

We permitted parties and interested persons to address us at our July 1, 2008 Agenda Conference. Each of the speakers urged us to consider alternatives to granting PEF's request to recover its mid-course correction in the remainder of 2008. Most expressed concerns regarding the rate shock that consumers would feel in 2008. The Florida Retail Federation (FRF) stated that the timing of the recovery of fuel costs is at issue for its members. According to FRF, postponing the implementation would give its members adequate notice and an ability to adjust their budgets.

In its written motion and during its oral presentation, FIPUG posed several questions it wished us to consider. FIPUG questioned why hedging did not protect customers from rate increases. In asking why hedging did not protect customers, FIPUG asserted that PEF bought hedges in 2007, presumably at lower prices. According to FIPUG, if PEF was locking in the lower 2007 prices, and if electrical sales fall off, PEF 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. According to FIPUG, it is concerned that if hedging and annual fuel factors are supposed to provide rate stability, these fuel cost increases move the policy away from stability.

FIPUG also questioned whether the rate increase was designed to conceal the full impact of the nuclear plant increases scheduled to begin in January 2009. FIPUG questioned the credibility of PEF's estimates of future lost sales. FIPUG provided the May Natural Gas Price Outlook published by Energy Information Association (EIA) to show that prices in 2009 will moderate. Finally, FIPUG questioned whether some of the anticipated lost revenue forecast was based on weather related events and asked that FPL be required to present testimony.

FIPUG asserted 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 claimed that in the past, utilities have supported an extended payback for under-recoveries rather than a five month payback. FIPUG stated that it would like to have the opportunity to recommend to us a reasonable payback period if the fuel cost shortfall actually occurs. FIPUG further asserted that we have only required the shorter payback period when future year increases are also anticipated. FIPUG stated that PEF provided no evidence to indicate an extended payback is not warranted. FIPUG contended that our 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.

We have reviewed the key assumptions regarding changes in fuel prices, system efficiency, system generation, and fuel mix as well as the presentations of PEF and consumer groups. The data used for comparison purposes is the original projection data contained in the September 4, 2007, testimony of PEF witness Lori Cross in Docket No. 070001-EI, and the mid-course projection data filed by PEF with its petition on May 30, 2008. The comparative data appear in Tables 2-5. PEF used these data to support its reprojected fuel costs and revenue estimates.

TABLE 2 - CHANGE IN PEF'S 2008 DELIVERED FUEL PRICE FORECAST ($/MMBTU)

	As filed (9/4/07)	As filed (5/30/08)	Change
Natural Gas	$10.10	$10.04	-$0.06
Residual Oil	$8.97	$9.78	$0.81
Distillate Oil	$17.48	$21.42	$3.94
Coal	$3.07	$3.55	$0.48
Nuclear	$0.37	$0.36	-$0.01
Source: Schedule E3			

TABLE 3 - CHANGE IN PEF'S 2008 SYSTEM EFFICIENCY (BTU/KWH)

	As filed (9/4/07)	As filed (5/30/08)
Natural Gas	7,641	7,835
Residual Oil	10,502	10,772
Distillate Oil	18,076	16,938
Coal	9,741	9,816
Nuclear	10,274	10,296
Weighted Average	9,345	9,325
Source: Schedule E3		

TABLE 4 - CHANGE IN PEF'S 2008 SYSTEM NET GENERATION (MWH) BY FUEL TYPE			
	As filed (9/4/07)	As filed (5/30/08)	Change
Natural Gas	11,852,959	13,342,872	12.57%
Residual Oil	4,444,519	3,183,673	-28.37%
Distillate Oil	314,678	191,291	-39.21%
Coal	15,520,789	15,545,371	0.16%
Nuclear	6,663,840	6,398,503	-3.98%
Total	38,766,785	38,661,710	-0.35%
Source: Schedule E3			

As can be seen from Table 2, coal, residual oil, and distillate delivered prices are all projected to increase compared to the original projections. These changes have contributed significantly to the under-recovery. The natural gas price for the year is projected to decline slightly. PEF projects it will experience a significant under-recovery in natural gas (see Table 5 below). This is due to PEF burning a higher percentage of natural gas in its generation mix than it originally projected. PEF is replacing oil-fired generation with gas-fired generation.

While it is true that natural gas prices (commodity price) has increased, the mid-course price estimate of natural gas includes the impact of hedging gains identified above. Hedging gains, both realized and projected, included in the delivered natural gas price shown in the mid-course filing, were not contained in the original projection. Such gains erase the price increase that would otherwise have been reflected in the delivered price of natural gas in the mid-course petition.

As indicated in Table 3, PEF shows a slight increase in system efficiency compared to original projections as measured by btu/kWh. Weighted average system efficiency improved from 9,345 btu/kWh to 9,325 btu/kWh. The percent increase is 0.2%. Most of this increase in efficiency is due to the shift from less efficient sources of generation (oil) to more efficient sources of generation (natural gas) compared to original projections.

The mid-course projection for system generation shows a decrease in both residual oil and distillate oil generation, as measured in megawatt hours, by significant margins (28% and 39%, respectively). Meanwhile, PEF projects it will generate more electricity in 2008 from burning natural gas (13% increase) than originally projected as natural gas becomes the more cost-effective option compared to oil. PEF also shows a decrease in nuclear generation (4%). PEF states that the reason for this decrease in nuclear generation is an unplanned outage of Crystal River Unit 3 in March 2008 lasting 20 days.

We identified the sources of the 2008 under-recovery by fuel type, power sales, purchased power, and other factors based on kilowatt hour sales. This breakdown is presented below in Table 5. The table shows the impact of higher coal, oil, and natural gas prices and increased gas sales in 2008, resulting in additional costs of $184,417,782, compared to the original estimate. Significantly lower residual oil volumes in 2008 are projected to result in an over-recovery related to that fuel of $61,797,346, despite the marked increased price of residual oil compared to original projections. As discussed above, PEF has replaced much of its oil-fired generation with lower cost and more efficient gas-fired generation.

The projected under-recovery in coal is due in part to the increased cost of diesel fuel for coal transportation. In addition, PEF has experienced a default on a coal supply contract and expects to replace this coal with higher-priced spot coal. PEF has been somewhat insulated from rising coal prices because 95% of its 2008 coal supply is under contract. However, higher coal prices can lead to defaults on coal supply contracts.

As shown on Table 5, PEF projects an under-recovery in purchased power, which includes purchased power by contract, power purchased from qualifying facilities, and economy purchases. PEF's purchased power is based on gas and coal and is, therefore, affected by higher natural gas and coal prices. This under-recovery is offset by an over-recovery in power sales. Overall, we find that the primary cause for PEF's projected under-recovery is that coal, residual oil, and distillate oil prices are higher than originally projected.

Table 5
Estimated Under-recovery and Over-recovery by Source of Kilowatt Hour Sales in 2008

1	Coal	($102,635,656)
2	Residual oil	61,797,346
3	Light Oil	24,940,008
4	Natural Gas	(182,379,311)
5	Nuclear	(259,996)
6	Non-fuel Generation	(374,016)
7	Power Sold	81,181,666
8	Purchased Power	(42,542,108)
9	Qualifying Facilities	(18,107,708)
10	Economy Energy	(25,161,847)
11	System kWh Sales (Sum of 1-10)	(164,623,045)
12	Wholesale kWh Sales	(19,794,737)
13	Jurisdictional kWh Sales (Sum of 11-12)	(184,417,782)
14	Revenue Adjustment Due to Rate Class Usage Variations	(20,243,155)
15	Unrefunded True-up and GPIF for 20080	8,733,109
14	Line-Loss Correction	(670,897)
15	Total June 2008 Projected Under-recovery (Sum of 13 – 14)	($195,927,840)

Source – Schedules E1, E1-B, E3, E6,E7, E8, E9 from 9/4/07 and 5/30/08 filings

Consistent with our review of previous mid-course corrections, our analysis of PEF's petition includes an examination of whether the assumptions (i.e. fuel prices, retail energy sales, generation mix, and system efficiency) that PEF used to support its reprojected fuel costs appear reasonable. PEF 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, and then apply the difference to next year's fuel factors through the true-up process. Any over-recovery that PEF may collect through its approved fuel factors will be refunded to PEF's ratepayers with interest. We will address whether PEF's actions to procure fuels reliably and cost-effectively, including its action to hedge fuel prices, were appropriate at our November 6-8, 2008, evidentiary hearing.

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 past years, we have considered the stability of fuel factors within the year and between years (e.g., Order No. PSC-03-0382-PCO-EI, at p. 9). We have 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.[3]

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 in that the subsequent year's fuel factors would reflect higher fuel prices and the 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, it is appropriate that we 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 below shows the recent trend in PEF's fuel factors and residential bills and estimated fuel factor in 2009.

[3] 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.

Table 6 – Trend for PEF's Fuel Factors and Residential Bills						
	2004	2005	2006	2007	2008 Current	2008 Proposed Mid-Course (includes elimination of Storm Cost Recovery Surcharge)
Levelized Fuel Cost Recovery Factor, ¢/kWh	3.453	3.912	5.321	5.132	4.604	5.809
Residential 1,000 kWh Bill, $	89.11	94.43	109.56	110.34	108.11	116.79
Source: Orders approving factors issued in December/January for 2004-2008, Mid Course Petition Schedule E-10						

PEF's fuel factors and residential class 1,000 kWh bill increased from 2004 through 2006. PEF's fuel factors declined from 2006 to 2008, while its residential class 1,000 kWh bill remained at about the same level.

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

Option A. Approve the requested mid-course correction as filed, which would allow recovery of the entire under-recovery during the remaining 5 months of 2008;

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

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).

The four options we have considered offer a reasonable range of alternatives from which to consider possible rate adjustments and bill impacts. PEF's projected total bill impacts in 2009 are available in redacted format since PEF is requesting confidentiality of the projected 2009 cost recovery amounts of proposed PEF Levy Nuclear Units 1-2 in Docket No. 080148-EI (Petition for Determination of Need for PEF Units 1-2). Nonetheless, it is apparent from the data in Attachment B 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 and January 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. We are aware that the drawback of Option C, similar to Options B and D, is that it may ultimately result in higher fuel factors and higher bills in 2009 than Option A. We find, however, that because of the unique economic conditions facing Florida, Option C is in the best interest of ratepayers and the utility alike. The utility will still be permitted to recover its fuel costs and consumers will have additional time to adjust their budgets for the increased rates.

Conclusion

We find that PEF's basis for requesting the proposed mid-course correction is consistent with Order No. PSC-07-0333-PAA-EI. We have tested the reasonableness and accuracy of the information provided by PEF. Actual and projected coal, residual oil, and distillate oil price increases indicate that PEF's current estimated under-recovery is reasonable. Our staff will continue to conduct discovery on the actual and estimated expenditures of PEF and we will conduct a thorough review of costs in our November 2008 fuel hearing.

We also considered the comments of PEF, and the customer representatives who spoke at our July 1, 2008, Agenda Conference. Upon review of the projected rate changes and bill impacts under the four different options presented to us, we approve Option C, which is the collection of 50% of the identified under-recovery during August through December of 2008. We defer consideration of the remaining 50% to the 2008 fuel hearing. By permitting PEF to collect 50% of its projected under-recovery in 2008, we will provide ratepayers with the least degree of immediate rate shock. While we are aware that by permitting recovery of only half of the under-recovered amount in 2008 may result in a higher 2009 bill for PEF's customers than if we allowed PEF to collect all of its under-recovery in 2008, we find that the timing of a stepped increase will give customers a better opportunity to adjust their budgets for the eventual expected increases in 2009. PEF shall file its tariff sheets with the new recovery factors with the Commission within thirty days of the date of this order.

Effective Date of New Rates

PEF has requested that the new factors become effective with the first billing cycle in August 2008. An effective date of the first billing cycle in August will ensure that all customers are billed under the new factors the same amount of time.

Starting June 26, 2008, PEF notified its customers of its proposed mid-course correction through a bill insert. To provide customers with a 30-day notice, PEF had to start mailing the bill inserts to notify customers of its proposed midcourse correction prior to the July 1 Agenda Conference. The June 26 mailing date ensures that customers receive a 30-day notice that fuel factors may change. The bill insert states PEF'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. The bill insert also states that we will vote on PEF's requested proposal at our July 1, 2008, Agenda Conference. PEF proposes to include details of our 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 our prior decisions and allows customers the opportunity to adjust their usage in light of the new factors.[4] PEF's proposed effective date and plan to notify its customers is appropriate and is approved.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Industrial Power Users Group's Motion to Dismiss or Alternately to Abate the Mid-course Correction Petition is denied. It is further

ORDERED that Progress Energy Florida, Inc.'s proposed elimination of the Storm Cost Recovery Surcharge effective with the last billing cycle in July 2008 is hereby approved. It is further

ORDERED that Progress Energy Florida, Inc. shall be permitted to collect 50% of its projected under-recovery in 2008. Any remaining 2008 balance will be considered for 2009 receovery in the November 2008 fuel hearing. The recovery will be subject to our review and true-up in the fuel proceedings. It is further

ORDERED that Progress Energy Florida, Inc. shall provide revised tariff sheets reflecting our Order within thirty days of the date of this Order. It is further

ORDERED that Progress Energy Florida, Inc. shall notify its customers as more specifically directed in the body of this Order. It is further

ORDERED that this docket is a continuing docket and shall remain open.

By ORDER of the Florida Public Service Commission this 5th day of August, 2008.

Ann Cole

ANN COLE
Commission Clerk

(S E A L)

LCB

[4] 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.

DISSENT BY: COMMISSIONERS ARGENZIANO AND MCMURRIAN

With the following opinion, COMMISSIONER KATRINA J. MCMURRIAN dissents from the majority's decision to deny staff's recommendation to approve PEF's petition for a mid-course correction to its 2008 fuel and purchased power cost recovery factors and to instead instruct PEF to collect half of the identified under-recovery during August through December of 2008 and defer collection of the remainder to 2009 (Issue 3).

I must respectfully dissent from the majority's denial of the staff recommendation to approve PEF's petition for mid-course correction to its 2008 fuel factors, also identified in the staff recommendation as Option A. As explained in the body of this Order, the majority voted to approve Option C, instructing PEF to instead collect half of the identified under-recovery during August through December of 2008 and defer collection of the remainder to 2009. My concern is that deferral of a significant portion of such an enormous under-recovery poses substantial risks to ratepayers in 2009, a year in which one could reasonably expect continued escalation in the price of natural gas, coal, and oil, given the panoply of world events that are taking their toll on our energy markets.

While forecasts are not perfect, they are the means by which we predict future fuel costs, and PEF's forecasts are reasonable. Unfortunately, if their projections materialize, the rate impacts will be severe and will have been compounded by the deferral of half of the large 2008 under-recovery. Even if PEF were allowed to recover the entire projected 2008 under-recovery in the remaining months of 2008 (Option A), PEF projected the 2009 fuel component would rise another $5 per 1,000 kWh above the approximate $12 per 1,000 kWh increase attributable to the proposed 2008 mid-course adjustment.[1]

My support for Option A is premised on several key factors, including accuracy of price signals to customers; the aforementioned projection of additional 2009 fuel factor increases; compounding effects of deferring the mid-course correction; substantial projected 2009 increases to non-fuel rates regarding environmental ($3.75 per 1,000 kWh), energy conservation ($1.16 per 1,000 kWh), and nuclear costs; interest costs associated with deferring the under-recovery; and reduced intergenerational inequity. Weighing each of these factors and in reviewing the projected rate impacts of the four options delineated in the recommendation, it is clear that Option A is the most practical choice in consideration of both short-term and long-term impacts on the consumer. In fact, as staff stated in its June 23, 2008, recommendation:

> It is apparent from the data in Attachment B that both the 2009 fuel factor increases and 2009 bill impacts under Options B, C, and D are high relative to Option A. Also, Option A appears to offer the greatest degree of stability in the fuel factor from 2008 to 2009.

---

[1] This approximate $12 per 1,000 kWh increase attributable to the proposed 2008 mid-course correction is partially offset by the elimination of the $3.61 per 1,000 kWh storm cost recovery surcharge.

In closing, I share the concerns of my colleagues about the mounting pressure on consumers of rising prices across numerous industries. While the majority's decision was understandably influenced by this fact, I am afraid that this decision, which unquestionably mitigates immediate rate impact, may increase the severity of the rate impact in the near future. Consistent with long-standing regulatory principles and a host of past Commission orders, reasonable fuel costs are recoverable.[2] Therefore, if the projected increases in fuel costs materialize and are ultimately shown to be reasonable, those increased costs will be reflected in future fuel factors, and the rate shock at that time will be greater due to the compounding effect of the deferral of half of the 2008 under-recovery. While I sincerely hope that does not occur, that risk is the basis for my dissent from the majority's decision. All stakeholders should work together to ensure that consumers are made aware of, and prepared to the greatest extent possible for, the significant projected cost increases in 2009.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

[2] Fuel cost recovery does not involve a profit element; therefore, fuel cost recovery does not increase utility profits.

Progress Energy Florida

E-10 Schedules for 2008 & 2009

Staff 2nd Mid-Course Data Request

Answer to Question #1

Residential Price Impact @ 1000 kWh:

	Current Rates	(A) Approve Petition				(B) Deny Petition				(C) Approve 50% in '08 & 50% in '09				(D) Approve 17 month Recovery			
		Collect $213m Aug 08 - Dec 08				Collect $213m Jan 09 - Dec 09				Collect $106.5m in '08 + $106.5m in '09				Collect $213m Aug 08 - Dec 09			
	Jan-Jul 08	Aug-Dec 08	% change	Jan-Dec 09	% change	Aug-Dec 08	% change	Jan-Dec 09	% change	Aug-Dec 08	% change	Jan-Dec 09	% change	Aug-Dec 08	% change	Jan-Dec 09	% change
Base Rate	$43.91	$43.91	0%	$43.91	0%	$43.91	0%	$43.91	0%	$43.91	0%	$43.91	0%	$43.91	0%	$43.91	0%
Fuel Cost Recovery	42.78	54.85	28%	59.71	9%	42.78	0%	64.99	52%	48.81	14%	62.36	28%	46.43	9%	63.39	37%
Capacity Cost Recovery	11.92	11.92	0%	9.49	-20%	11.92	0%	9.49	-20%	11.92	0%	9.49	-20%	11.92	0%	9.49	-20%
Energy Conservation Cost Recovery	2.01	2.01	0%	3.17	58%	2.01	0%	3.17	58%	2.01	0%	3.17	58%	2.01	0%	3.17	58%
Environmental Cost Recovery	1.18	1.18	0%	4.93	318%	1.18	0%	4.93	318%	1.18	0%	4.93	318%	1.18	0%	4.93	318%
Storm Cost Recovery Surcharge	3.61	0.00	-100%	0.00	0%	0.00	-100%	0.00	0%	0.00	-100%	0.00	0%	0.00	-100%	0.00	0%
Nuclear Cost Recovery - CR3 Uprate	0.00	0.00	0%	0.70	100%	0.00	0%	0.70	100%	0.00	0%	0.70	100%	0.00	0%	0.70	100%
Nuclear Cost Recovery - Levy	0.00	0.00	0%	[redacted]	[redacted]	0.00	0%	[redacted]	[redacted]	0.00	0%	[redacted]	[redacted]	0.00	0%	[redacted]	[redacted]
Subtotal	105.41	113.87	8%	[redacted]	[redacted]	101.80	-3%	[redacted]	[redacted]	107.83	2%	[redacted]	[redacted]	105.45	0%	[redacted]	[redacted]
Gross Receipts Tax	2.70	2.92	8%	[redacted]	[redacted]	2.61	-3%	[redacted]	[redacted]	2.76	2%	[redacted]	[redacted]	2.70	0%	[redacted]	[redacted]
Total	$108.11	$116.79	8%	[redacted]	[redacted]	$104.41	-3%	[redacted]	[redacted]	$110.59	2%	[redacted]	[redacted]	$108.15	0%	[redacted]	[redacted]

This document (Document Number 05123-08) is the subject of a pending confidentiality request filed with our Clerk's office.