BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.	DOCKET NO. 170001-EI ORDER NO. PSC-17-0219-PCO-EI ISSUED: June 13, 2017

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman
ART GRAHAM
RONALD A. BRISÉ
JIMMY PATRONIS
DONALD J. POLMANN

ORDER DENYING DUKE ENERGY FLORIDA, LLC'S
PETITION FOR MID-COURSE CORRECTION

BY THE COMMISSION:

BACKGROUND

On April 13, 2017, Duke Energy Florida, LLC (DEF or the Company) filed a petition for mid-course correction to its 2017 fuel adjustment factors (DEF Petition). The DEF Petition seeks to increase the respective 2017 fuel and purchased power cost recovery factors (fuel factors) approved in Order No. PSC-16-0547-FOF-EI.[1] The Company stated the increase is primarily due to fluctuations in coal and natural gas prices, and has requested that the revised fuel factors become effective with the July 2017 billing cycle.

Mid-course corrections are part of the fuel and purchased power cost recovery clause (fuel clause) proceeding, and such corrections can be implemented between fuel clause hearings whenever costs deviate from revenues by a significant margin. Petitions for mid-course corrections to fuel factors are addressed by Rule 25-6.0424, Florida Administrative Code (F.A.C.). Under this rule, a utility must notify this Commission whenever it expects to experience an under-recovery or over-recovery greater than 10.0 percent. Pursuant to Rule 25-6.0424, F.A.C., the mid-course percentage is the estimated end-of-period total net true-up amount divided by the current period's total actual and estimated jurisdictional fuel revenue applicable to period amount. In the instant case, DEF estimates that the resulting mid-course calculation reflects an under-recovery of 13.6 percent.

Mid-course corrections are considered preliminary procedural decisions, and any over-recoveries or under-recoveries caused by or resulting from the new fuel factors adopted by the mid-course correction may be included in the following year's fuel factors. This Commission's jurisdiction to consider fuel clause proceedings derives from our authority to set fair and reasonable rates, found in Sections 366.04, 366.05, and 366.06, Florida Statutes.

[1]Order No. PSC-16-0547-FOF-EI, issued December 5, 2016, in Docket No. 160001-EI, In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor.

DISCUSSION

DEF's currently authorized 2017 fuel factors were set by this Commission following the November 2, 2016 fuel hearing, and codified in Order No. PSC-16-0547-FOF-EI.[2] These factors are based on the Company's projected fuel costs for 2017, plus prior period true-up amounts. According to DEF, there are two related components that prompted this filing: the impact of the final true-up amount from 2016, and changes in fuel price and sales forecasts for 2017, as detailed below.

Impact of Final True-Up Amount from 2016

In the instant petition, DEF updated its 2016 actual/estimated true-up amount to reflect twelve months of actual data (January through December 2016). Originally, the actual/estimated true-up amount for 2016 was an under-recovery of $26,217,663. DEF's true-up filing and its mid-course correction filing show the actual true-up amount for 2016 is an under-recovery of $85,111,174. The difference between the actual/estimated amount and the final actual amount for 2016 is an under-recovery of $58,893,512. The principal drivers of the under-recovery in 2016 were lower sales and higher across-the-board fuel costs than originally projected.

Impact of Fuel Price changes (Actual and Estimated amounts for 2017)

On September 1, 2016, DEF filed testimony and exhibits to project what its forecasted fuel needs would be for 2017. In May 2016, the Company prepared fuel price forecasts for the four fuel types the Company uses in its generating plants. In mid-March of 2017, DEF revised those forecasts. The original and revised fuel price forecasts were for light oil, two varieties of coal, and natural gas. Light oil is used as a starter fuel, and the coal varieties and natural gas are used as primary fuels.

Light Oil

DEF states that its originally-projected average cost for light oil futures for each month of 2017 was $62.16 per barrel, or $10.73 per MMbtu.[3] These figures were based on the fuel cost forecast the Company prepared on May 13, 2016. The Company updated its fuel cost forecast on March 16, 2017. In the revised forecast, the average cost for light oil futures for each month of 2017 is $62.92 per barrel, or $10.85 per MMbtu. On a comparative basis, the average price for light oil increased by $0.76 per barrel (1.22 percent), or $0.12 per MMbtu (1.19 percent).

Coal

In its projection filing for 2017, DEF projected that coal as a fuel source would supply about 28 percent of the Company's generating mix. At its Crystal River generating station, DEF operates four coal-burning units. Crystal River Units 1 and 2 (CR 1 and 2) use a different coal variety than Crystal River Units 4 and 5 (CR 4 and CR 5).[4] In its fuel cost forecasting, the coal prices are expressed for each variety. Based on its May 2016 forecast, DEF's projected average

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[2]Order No. PSC-16-0547-FOF-EI, issued December 5, 2016, in Docket No. 160001-EI, <u>In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor</u>.
[3]MMbtu is an acronym for one million British thermal units, a term used in the energy industry as a unit of measure.
[4]CR 1 and 2 were constructed in the 1960's and are designed to burn coal varieties with a low sulfur content. The CR 4 and 5 units were built in the 1980's and have different design characteristics than the older units, and use coal varieties with higher sulfur content.

cost for coal at CR 1 and 2 for each month of 2017 was $91.70 per ton, or $3.90 per MMbtu. In the March 2017 forecast, the average cost for coal at CR 1 and 2 for each month of 2017 is $94.20 per ton, or $4.12 per MMbtu. On a comparative basis, the average price for this variety of coal increased by $2.50 per ton (2.73 percent), or $0.22 per MMbtu (5.64 percent).

Based on its May 2016 forecast, DEF's projected average cost for coal at CR 4 and 5 for each month of 2017 was $63.50 per ton, or $2.80 per MMbtu. In the March 2017 forecast, the average cost for coal at CR 4 and 5 for each month of 2017 is $70.21 per ton, or $3.04 per MMbtu. On a comparative basis, the average price for this variety of coal increased by $6.71 per ton (10.57 percent), or $0.24 per MMbtu (8.71 percent).

<u>Natural Gas</u>

In its projection filing for 2017, DEF projected that natural gas as a fuel source would supply about 72 percent of the Company's generating mix. DEF states that its original projected cost for natural gas used the New York Mercantile Exchange (NYMEX)[5] futures contract prices for each month of 2017, based on a forward curve as of May 13, 2016. DEF states that its originally-projected average cost for natural gas for delivery in each month of 2017 was $2.92 per MMbtu.

Projected natural gas commodity prices have increased since DEF's original projections were developed. For its mid-course calculations, DEF used NYMEX futures contract prices based on a forward curve as of March 16, 2017, reflecting a price of $3.10 per MMbtu (an increase of 6.16 percent). Since natural gas is the primary generating fuel DEF relies upon, an increase in the projected cost of gas can significantly increase its fuel factors.

<u>Impact of lower sales (Actual and Estimated amounts for 2017)</u>

In its projection filing for 2017, DEF estimated its total fuel and net power transactions, excluding true-ups, would be $1,413,729,784. In the Company's revised projections for 2017, which include actual data through March 2017 and estimated data for the remainder of 2017, the total is now $1,468,975,926, a difference of $55,246,142.

In addition to the changes in forecasted prices for the fuel types used in its generating plants, mild weather impacted sales and revenues and contributed to the DEF mid-course correction.[6] Based on Schedule E-1, line 21, from DEF's Projection filing for 2017, the Company's Jurisdictional Sales amount of $1,406,185,977 was based on sales of 39,214,036 megawatt hours. In the Company's revised projections for 2017, DEF has estimated Jurisdictional Fuel Revenue Applicable to Period of $1,339,629,347 based on sales of 37,811,915 megawatt hours. Thus, the revised forecast is lower in both dollars and megawatt hours. The lower revenue and sales figures, coupled with elevated fuel costs for 2017, are the principal drivers of the incremental under-recovery of $123,151,067.

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[5]The New York Mercantile Exchange (NYMEX) is a commodities futures exchange widely used by the electric industry for pricing natural gas. Forward curve prices represent the price of gas for delivery in a particular month in the future. Futures contracts are actively traded and the prices can change hour-by-hour throughout a trading day.
[6]DEF's Response to Staff's First Data Request No. 2.

When the final true-up amount from 2016 (an under-recovery of $58,893,512) is added to the estimated true-up amount for 2017 (an under-recovery of $123,151,067), the total true-up balance is an under-recovery of $182,044,578.[7]

Calculation of Mid-Course Correction Percentage

Based on Rule 25-6.0424, F.A.C., the mid-course percentage is the estimated end-of-period total net true-up amount divided by the current period's total actual and estimated jurisdictional fuel revenue applicable to period amount. Schedule E1-B in DEF's Petition shows that the Company's most current actual and estimated jurisdictional fuel revenue applicable to 2017 is projected to be $1,339,629,347. Dividing the total under-recovery of $182,044,578 by the total applicable revenue for the period of $1,339,629,347 results in an under-recovery percentage of 13.59 percent.

Effective Date

The Company has requested that the revised fuel factors become effective with the July 2017 billing cycle and remain in-place until the Citrus 1 GBRA is placed into rates. Although the Company presented its calculation of the impact of this adjustment based on a 12-month period, the actual duration of the mid-course adjustment may be more or less than a 12 month period, depending on the actual in-service date of Citrus 1. The "best case" scenario for when Citrus 1 would enter commercial service is June 2018, and the "worse case" scenario is September 2018.[8] If the mid-course factor remains in place for greater than or less than 12 months, any over or under-recovered amounts will be addressed in the 2018 fuel clause hearing.

According to DEF, implementing this mid-course correction over an extended period of time will result in its customers seeing a smaller monthly increase in bills than if the recovery period was shorter. DEF presented calculations based on a 12-month recovery period, but requests that the mid-course correction factors remain in-place until the Citrus 1 GBRA is placed into rates. As shown in Schedule E10 in DEF's Petition, the mid-course correction amount is $4.70 for a residential customer using 1,000 kWh of electricity.

When Citrus 1 is placed into service, DEF's customers will see a base rate adjustment for the new plant being placed into service, and the concurrent expiration of the mid-course correction. DEF estimates that the Citrus 1 GBRA adjustment to base rate will be $4.25 per month for a residential customer using 1,000 kWh of electricity. The Company believes ending the mid-course correction adjustment at the same time the Citrus 1 GBRA adjustment is implemented will offset the overall bill impact for its customers, because both adjustments will be addressed in a single billing adjustment.

The total current bill for a residential customer using 1,000 kilowatt hours (kWh) of electricity is $117.24 per month with a fuel component of $33.77 per month. Assuming that its mid-course correction is approved as filed, the fuel portion will increase by $4.70 per month, to $38.47 per month. DEF's Petition also identifies its separately requested revision to the Asset Securitization Charge (ASC). The revision to the ASC was incorporated into the tariff sheets with the mid-course correction for administrative efficiency because both charges will go into

[7]In the Response to Staff 's First Data Request No. 1A, the Company stated the total under-recovery true-up balance of $182,044,578 is based on actual data through March, and estimated amounts for the remainder of 2017.
[8]DEF's Response to Staff's First Data Request Nos. 7 and 8.

effect with the first billing cycle in July. The ASC portion of a residential bill for 1,000 kWh of usage will increase by $1.14 per month. Upon approval, the bill for a residential customer using 1,000 kilowatt hours of electricity increases to $123.23 per month, a total increase of $5.99 per month (including gross receipts tax), effective with the July billing cycle.

DECISION

Each year in the fuel clause[9] hearing a fuel factor is developed which is comprised of three sets of data: a true-up of actual fuel costs (either an over or under-recovery) from the previous year (2016); actual fuel costs for part of the current year (2017) plus revised projected costs for the remainder of the year; and projected fuel costs for the following year (2018). This fuel factor is applied to electric ratepayers each January and stays in place until the next January. Rule 25-6.0424, F.A.C., allows electric utilities to request a modification in the fuel factor before the next fuel clause hearing if there is either an over or under-recovery. Modification of the fuel factor before the next fuel clause hearing is at the discretion of the Commission.

DEF states that its under-recovery of actual fuel costs in 2016 and actual and projected fuel costs in 2017 is the result of two factors: higher than projected fuel costs and lower than projected kWh sales. DEF projected its 2016 end of the year fuel cost recovery balance would be an under-recovery of $26,271,663. The actual fuel cost recovery balance for 2016 was an under-recovery of $85,111,174, a difference of $58,893,512 or 324%.

Given the inaccuracy of past projections, and the fact that more actual data for both DEF's 2017 fuel costs and kWh sales will be available at the fall fuel clause hearing, we find it appropriate to defer resetting the fuel factor at this time.

Therefore, it is

ORDERED by the Florida Public Service Commission that Duke Energy Florida, LLC's Petition for Mid-Course for Fuel Cost Recovery Clause filed on April 13, 2017, is hereby denied.

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[9] Docket No. 170001-EI, In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor.

By ORDER of the Florida Public Service Commission this 13th day of June, 2017.

Carlotta S Stauffer

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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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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 25-22.0376, 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.