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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: | January 20, 2022 |
| TO: | Office of Commission Clerk (Teitzman) |
| FROM: | Division of Accounting and Finance (Higgins)Division of Economics (Draper, Coston)Office of the General Counsel (Brownless) |
| RE: | Docket No. 20220001-EI – Fuel and purchased power cost recovery clause with generating performance incentive factor. |
| AGENDA: | 02/01/22 – Regular Agenda – Interested Persons May Participate |
| COMMISSIONERS ASSIGNED: | All Commissioners |
| PREHEARING OFFICER: | La Rosa |
| CRITICAL DATES: | None |
| SPECIAL INSTRUCTIONS: | None |

 Case Background

On December 17, 2021, Duke Energy Florida, LLC (DEF or Company), filed for a mid-course correction (MCC Petition) of its 2022 fuel cost recovery factors.[[1]](#footnote-1) The MCC Petition was filed in Docket No. 20210001-EI. However, as the 2022 fuel clause docket was subsequently established, processing of the MCC Petition has been transferred to Docket No. 20220001-EI.

DEF’s currently-effective 2022 fuel factors were approved last year at the November 2, 2021 final hearing.[[2]](#footnote-2) Underlying the approval of DEF’s 2022 factors was the Florida Public Service Commission’s (Commission) review of the Company’s projected 2022 fuel-related costs. These costs are recovered through fuel 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, by Rule 25-6.0424, Florida Administrative Code (F.A.C.), 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.

***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 “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 mid-course correction rule and its codified procedures are further discussed throughout this recommendation.

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

Through its MCC Petition, DEF is proposing a mid-course correction of its 2022 fuel charges. Specifically, the Commission is being asked to approve an increase to DEF’s fuel cost recovery factors due to the Company now projecting a period-ending 2022 under-recovery of fuel costs that exceed the 10 percent threshold. The proposed increase to DEF’s currently-authorized fuel charges is being driven by 2021 and 2022 fuel costs being greater than originally estimated. This topic is discussed further in Issue 1. Higher market prices for natural gas is the primary driver of DEF’s fuel cost under-recovery.

The Company is requesting that its revised fuel factors and associated tariff become effective beginning with the March 2022 billing cycle. The effective date is further discussed in both Issues 1 and 2. Also included in the Company’s proposed tariff are the bi-annual rate adjustments related to its nuclear asset-recovery bonds, or “Asset Security Charge,” that was originally authorized in 2015.[[3]](#footnote-3) However, while the rate adjustments are included as part of the proposed tariff, neither the rate change nor associated amounts are at issue in this proceeding. The implementation date of the revised Asset Security Charges simply coincide with the proposed fuel rate changes.

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 :

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

Recommendation:

 Yes. Staff recommends the Commission approve adjustments to DEF’s currently-approved fuel cost recovery factors for the purpose of recovering a portion of the total projected period-ending 2022 under-recovery of fuel costs in the amount of $314,223,437. (Higgins)

Staff Analysis:

 DEF participated in the Commission’s most-recent fuel hearing which took place on November 2, 2021. The Fuel Order issued with respect to DEF set forth the Company’s fuel and capacity cost recovery factors effective with the first billing cycle of January 2022.[[4]](#footnote-4) However, as discussed below, the currently-authorized fuel cost recovery factors are now projected to produce an under-recovery position at the end of 2022 of greater than 10 percent. Higher market prices for natural gas is the primary driver of the fuel cost under-recovery. Some factors influencing near-term natural gas prices include reduced storage levels, strong liquefied natural gas exports, and capital/expenditure discipline being practiced by drilling companies.

***Fuel and Purchased Power Mid-Course Correction***

DEF filed for a mid-course correction of its fuel charges on December 17, 2021.[[5]](#footnote-5) The Company’s petition and supporting documentation satisfies the filing requirements of Rule 25-6.0424(1)(b), F.A.C.[[6]](#footnote-6)

Preceding the filing of its MCC Petition and in accordance with the noticing requirement of Rule 25-6.0424(2), F.A.C., DEF filed a letter on October 18, 2021, informing the Commission that it was projecting an under-recovery position of greater than 10 percent for the recovery period ending on December 31, 2022.[[7]](#footnote-7) However, in analyzing settlement prices for natural gas, the Company determined that the continuing price volatility warranted deferring a decision to file for a mid-course correction, but would update the Commission later in the year. As indicated by the MCC filing, DEF determined that a mid-course correction of its 2022 fuel factors was ultimately necessary.

The Company developed its proposed mid-course correction factors using twelve months of forecasted sales data (March 2022 through February 2023). However the exact factors proposed in this proceeding are currently contemplated to be charged for 10 months in 2022. As is typical procedure, later this year newly-developed 12-month-applicable factors will be proposed for authorization to begin with the first billing cycle of January 2023.[[8]](#footnote-8)

***Projected Period-Ending 2021 Fuel Cost Recovery Position***

DEF’s 2022 fuel cost projection filing contained an adjustment to its previously-filed 2021 actual/estimated true-up that reflected an updated under-recovery of ($246,837,576).[[9]](#footnote-9) Normally, this specific true-up amount would have been included in the following year’s factors. However, due to a “Rate Mitigation Agreement” between DEF and the Office of Public Counsel, the Florida Industrial Power Users Group, the Florida Retail Federation, Nucor Steel Florida, Inc., the Southern Alliance for Clean Energy, and White Springs Agricultural Chemicals, Inc. d/b/a PCS Phosphate, only half of the then-estimated 2021 under-recovery amount, or ($123,418,788), was proposed to be collected in 2022.[[10]](#footnote-10) The second half was proposed to be collected in 2023. The Commission ultimately approved this Rate Mitigation Agreement/recovery schedule.[[11]](#footnote-11) Staff notes that DEF’s first mid-course correction in 2021, which the Commission ultimately approved in the amount of ($39,503,838), was reflected in the derivation of the above-discussed 2021 actual/estimated true-up.[[12]](#footnote-12) However, as indicated by the instant MCC Petition, DEF now estimates an additional 2021 under-recovery of ($168,620,747), bringing the total estimated period-ending under-recovery to ($415,458,323).[[13]](#footnote-13) The additional 2021 under-recovery of ($168,620,747) is being proposed for collection as part of this mid-course correction.

Increased pricing for natural gas is the primary driver of the total under-recovery discussed above. More specifically, through its 2021 actual/estimated filing, the Company estimated an annual natural gas cost of $4.50 per million British thermal unit (MMBtu).[[14]](#footnote-14) However, as indicated in the MCC Petition, DEF now estimates its average 2021 cost of natural gas will be $5.29 per MMBtu, representing an increase of 17.6 percent.[[15]](#footnote-15)

***Projected 2022 Fuel Cost Recovery Position***

DEF’s 2022 fuel cost projection filed for the purposes of cost recovery was on September 3, 2021.[[16]](#footnote-16) The underlying market-based natural gas price data used for the 2022 fuel cost projection was sourced on July 21, 2021.[[17]](#footnote-17) This data was used to produce an estimated average 2022 natural gas cost of $5.01 MMBtu.[[18]](#footnote-18) Staff notes this figure includes delivery costs. However, as indicated in its MCC Petition, DEF now estimates its average cost of delivered natural gas in 2022 will be $5.20 per MMBtu, representing an increase of 3.8 percent.[[19]](#footnote-19) The updated cost estimate was based on natural gas futures sourced on December 13, 2021.[[20]](#footnote-20)

Staff compared the February through December 2022 commodity-only, i.e., excluding delivery cost, price projection for natural gas underlying the Company’s mid-course correction filing with current market prices.[[21]](#footnote-21) Staff observes the arithmetic average of DEF’s commodity-only natural gas price projection for the 11-month period, or February through December 2022, is $3.76 per MMBtu.[[22]](#footnote-22) As previously indicated, DEF’s pricing information was sourced on December 13, 2021. Using more-current data, or information sourced on January 14, 2022, staff calculates an average natural gas (commodity-only) price of $4.14 per MMBtu for the same 11-month period. The results of this comparison indicate that natural gas prices over the subject period have increased since the development of the MCC Petition. However, staff notes that natural gas prices are continuously subject to numerous market (and other) forces and therefore can be volatile.

Updated pricing for coal is also driving changes to DEF’s 2022 total projected fuel cost. In its September 3, 2021 filing, the Company estimated a 2022 coal cost of $2.78 per MMBtu.[[23]](#footnote-23) In its MCC Petition, DEF now estimates a coal cost of $3.63 per MMBtu, representing an increase of 30.6 percent.[[24]](#footnote-24) However, the effect of this cost increase is partially mitigated through planned resource dispatch. DEF had originally planned for coal-fired resources to account for 19.6 percent of its generation mix. However, as indicated in the MCC Petition, DEF is now planning for coal-fired resources to account for 7.4 percent of its resource mix.

Given this and other updates to DEF’s 2022 total fuel cost estimate, coupled with currently-effective cost recovery rates, the Company now estimates a 2022 fuel cost under-recovery of ($145,602,690). The estimated 2022 fuel cost under-recovery is being proposed for collection as part of this mid-course correction.

***Mid-Course Correction Percentage***

Following the methodology prescribed in Rule 25-6.0424(1)(a), F.A.C., the mid-course percentage is equal to the estimated end-of-period total net true-up, including interest, divided by the current period’s total actual and estimated jurisdictional fuel revenue applicable to period, or ($314,223,437) / $1,442,465,312.[[25]](#footnote-25) This calculation results in a mid-course correction level of (21.8) percent.[[26]](#footnote-26) Staff notes that the numerator in this calculation appropriately omits the second half of the under-recovery as contemplated by the Rate Mitigation Agreement. As shown in the MCC Petition, the estimated end-of-period total net true-up amount at December 31, 2022 is ($437,642,225). However, as per the terms of the Rate Mitigation Agreement, the second half of the specified under-recovery, or ($123,418,788), will be recognized for recovery in 2023.

***Fuel Factor***

DEF’s currently-approved annual levelized fuel factor beginning with the January 2022 billing cycle is 3.986 cents per kilowatt-hour (kWh).[[27]](#footnote-27) The Company is requesting to increase its currently-approved 2022 annual levelized fuel factor (beginning March 2022) to 4.739 cents per kWh, or by 18.9 percent.[[28]](#footnote-28)

***Bill Impacts***

Table 1-1 below shows the bill impact to a typical residential customer using 1,000 kWh of electricity a month associated with the current and proposed service charges. In the discussion below Table 1-1, staff addresses the impacts of the proposed MCC on non-residential customers:

| **Table 1-1** |
| --- |
| **Monthly Residential Billing Detail for the First 1,000 kWh** |
| **Invoice Component** | **Currently-Approved Charges Beginning January 2022****($)** | **Proposed Charges** **Beginning****March****2022****($)** | **Approved to Proposed Difference****($)** | **Approved to Proposed Difference****(%)** |
| Base Charge[[29]](#footnote-29) | $80.91 | $80.91 | $0.00  | 0.0% |
| Fuel Charge | 36.81 | 44.69 | 7.88  | 21.4% |
| Capacity Charge | 11.03 | 11.03 | 0.00  | 0.0% |
| Conservation Charge | 2.83 | 2.83 | 0.00  | 0.0% |
| Environmental Charge | 0.28 | 0.28 | 0.00  | 0.0% |
| Storm Protection Plan Charge | 3.00 | 3.00 | 0.00  | 0.0% |
| Asset Securitization Charge | 2.48 | 2.34 | (0.14) | -5.6% |
| Gross Receipts Tax | 3.62 | 3.82 | 0.20  | 5.5% |
| **Total** | $140.96  | $148.90  | $7.94  | 5.6% |

Source: FPSC, Division of Economics.

DEF’s current total residential charge for the first 1,000 kWh of electricity usage beginning January 2022 is $140.96. If DEF’s mid-course correction proposal is approved, the current total residential charge for the first 1,000 kWh of electricity usage, beginning March 2022, will be $148.90. This represents an increase of 5.6 percent. For non-residential customers, DEF reported that based on average levels of usage and specific rate schedules, bill increases for small- and medium-size commercial customers would be 19.9 percent, bill increases for large-size commercial customers would be 16.3 percent, and 14.3 percent for industrial customers.[[30]](#footnote-30) DEF’s proposed tariff is shown on Appendix A to this recommendation.

***Summary***

Staff recommends DEF’s fuel cost recovery factors be adjusted to incorporate a portion of its projected 2022 end-of-year fuel cost under-recovery. The revised fuel factors associated with staff’s recommendation are shown on Appendix A.

**Conclusion**

Staff recommends the Commission approve adjustments to DEF’s currently-approved fuel cost recovery factors for the purpose of recovering a portion of the total projected period-ending 2022 under-recovery of fuel costs in the amount of $314,223,437.

Issue :

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

Recommendation:

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

Staff Analysis:

 In its petition, DEF has requested that the revised fuel cost recovery factors become effective with the March 2022 billing cycle.

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 the 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.[[31]](#footnote-31) 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.[[32]](#footnote-32) 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.[[33]](#footnote-33)

In its MCC Petition, DEF proposes to collect the current under-recovery of fuel costs beginning with the first billing cycle of March 2022. The exact beginning date of DEF’s March 2022 billing cycle is February 28, 2022. In the instant case, there are 27 days between the Commission’s vote on February 1, and the beginning of DEF’s March billing cycle (February 28).[[34]](#footnote-34)

Concerning customer advisement of the instant request, DEF states that it will notify its customers of the proposed rate changes through bill inserts in its February 2022 invoices. Additionally, on December 17, 2021, which is the same day DEF submitted its MCC Petition, the Company posted a “press release” to its website while also issuing the information to various media outlets describing the proposal.[[35]](#footnote-35)

**Conclusion**

Staff recommends that the fuel cost recovery factors as shown on Appendix A become effective with the March 2022 billing cycle.

Issue :

 Should this docket be closed?

Recommendation:

 No. The 20220001-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. Document No. 13092-2021. [↑](#footnote-ref-1)
2. Order No. PSC-2021-0442-FOF-EI, issued November 30, 2021, and Order No. PSC-2021-0442A-FOF-EI, issued December 13, 2021, in Docket No. 20210001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*. [↑](#footnote-ref-2)
3. Order No. PSC-15-0537-FOF-EI, issued November 19, 2015, in Docket No. 150148-EI, *In re: Petition for approval to include in base rates the revenue requirement for the CR3 regulatory asset, by Duke Energy Florida, Inc.,* and Docket No. 150171-EI, *In re: Petition for issuance of nuclear asset-recovery financing order, by Duke Energy Florida, Inc. d/b/a Duke Energy*. [↑](#footnote-ref-3)
4. Order No. PSC-2021-0442-FOF-EI and Order No. PSC-2021-0442A-FOF-EI. [↑](#footnote-ref-4)
5. Document No. 13092-2021. [↑](#footnote-ref-5)
6. Document No. 13092-2021 and Document No. 00053-2022. [↑](#footnote-ref-6)
7. Document No. 12188-2021. [↑](#footnote-ref-7)
8. Document No. 00053-2022, filed January 4, 2022, DEF’s Responses to Staff’s Second Data Request, No. 3(a. through d.). [↑](#footnote-ref-8)
9. Document No. 10081-2021. [↑](#footnote-ref-9)
10. Document No. 10082-2021, filed in Docket No. 20210001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*, Docket No. 20210097-EI, *In re: Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs Related to Hurricane Eta and Isaias, by Duke Energy Florida, LLC*, and Docket No. 20210010-EI, *In re: Storm Protection Plan Cost Recovery Clause*. This motion was ultimately adjudicated in Docket No. 20210158-EI. [↑](#footnote-ref-10)
11. Order No. PSC-2021-0425-FOF-EI, issued November 16, 2021, in Docket No. 20210158-EI, *In re: Limited proceeding to consider Duke Energy Florida, LLC's unopposed motion to approve rate mitigation agreement*. For the 2022 fuel cost recovery authorization, please see Order Nos. PSC-2021-0442-FOF-EI and PSC-2021-0442A-FOF-EI. [↑](#footnote-ref-11)
12. Order No. PSC-2021-0328-PCO-EI, issued August 30, 2021, in Docket No. 20210001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*. [↑](#footnote-ref-12)
13. Document No. 13092-2021. [↑](#footnote-ref-13)
14. Document No. 08364-2021. [↑](#footnote-ref-14)
15. Document No. 13092-2021. [↑](#footnote-ref-15)
16. Document No. 10081-2021. [↑](#footnote-ref-16)
17. *Id*. [↑](#footnote-ref-17)
18. *Id*. [↑](#footnote-ref-18)
19. Document No. 13092-2021. [↑](#footnote-ref-19)
20. *Id*. [↑](#footnote-ref-20)
21. Staff obtained its natural gas pricing information from the CME Group Inc. CME Group pricing information with respect to natural gas can be located through the following web address: <https://www.cmegroup.com/markets/energy/natural-gas/natural-gas.quotes.html> [↑](#footnote-ref-21)
22. Document No. 13092-2021. [↑](#footnote-ref-22)
23. Document No. 10081-2021. [↑](#footnote-ref-23)
24. Document No. 13092-2021. [↑](#footnote-ref-24)
25. The mid-course correction amount being sought for recovery in this proceeding consists of the projected incremental 2021 under-recovery of ($168,620,747), and the projected 2022 under-recovery of ($145,602,690), for a total of ($314,223,437). [↑](#footnote-ref-25)
26. Document No. 00053-2022, filed January 4, 2022, DEF’s Responses to Staff’s Second Data Request, No. 1. [↑](#footnote-ref-26)
27. Order Nos. PSC-2021-0442-FOF-EI and PSC-2021-0442A-FOF-EI. [↑](#footnote-ref-27)
28. Document No. 13092-2021. Recovery factor shown on “Exhibit A,” Schedule E1-D, line 8. [↑](#footnote-ref-28)
29. DEF’s 2022 base rate represents a weighted average consisting of the actual December through February charge of $88.68, and the actual March through November charge of $78.32. [↑](#footnote-ref-29)
30. Document No. 00053-2022, filed January 4, 2022, DEF’s Responses to Staff’s Second Data Request, No. 6. [↑](#footnote-ref-30)
31. 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-31)
32. 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-32)
33. Order No. PSC-09-0213-PCO-EI; Order No. PSC-2019-0109-PCO-EI. [↑](#footnote-ref-33)
34. Document No. 00053-2022, filed January 4, 2022, DEF’s Responses to Staff’s Second Data Request, No. 5. [↑](#footnote-ref-34)
35. Document No. 00053-2022, filed January 4, 2022, DEF’s Responses to Staff’s Second Data Request, No. 7. [↑](#footnote-ref-35)