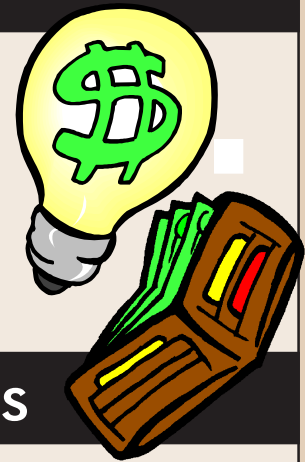




Florida Public Service Commission

# Consumer Bulletin

Braulio L. Baez, Chairman



## Fuel Price Adjustments

During recent months, you may have noticed an increase in the prices of various fuels that are used to meet daily energy needs. From the gasoline that powers vehicles to the natural gas that is used to heat homes, fuel prices have been on the rise. With this in mind, the PSC urges Florida's consumers to conserve energy and to take the time to understand how the PSC monitors the fuel price increases that occur in the marketplace.

The PSC has jurisdiction of the fuel-related expenditures for the five investor-owned electric utilities in Florida. These five utilities are the following:

- ◆ Florida Power & Light Company,
- ◆ Progress Energy Florida, Inc.,
- ◆ Tampa Electric Company,
- ◆ Gulf Power Company, and
- ◆ Florida Public Utilities Company.

As part of its review, the PSC establishes "fuel factors" (or rates) that are charged to customers for the fuel costs that utilities incur. Rate adjustments take place every year not only for fuel costs, but also for capacity costs, environmental costs, and energy conservation costs. PSC staff monitors all of these costs and related rates throughout the year.

### **How Does the PSC Allow Recovery of Fuel Costs?**

Until 1974, the PSC allowed utilities to recover fuel expenditures through a line item on customer bills known as the "energy charge," a charge that was included in customer "base rates." However, as a result of the severe price fluctuations in fuel costs experienced during the Organization of Petroleum Exporting Countries (OPEC) oil embargo of 1973-74, the PSC established a separate charge for fuel that can be adjusted in proceedings that do not involve base rates. These fuel proceedings were scheduled more frequently than base rate proceedings and a new line item on customer bills was established. As stated above, this new line item is known as the "fuel factor" and allows utilities to recover fuel costs.

The action of removing fuel costs from base rates had the effect of reducing fluctuations in base rates. Both the utilities and their customers now had a better incentive to respond to fuel price changes. Because non-fuel expenditures are more stable than fuel expenditures, utilities were not only less likely to seek base rate adjustments, but any rising costs also provided the utility with a greater incentive to use other, less expensive fuels to generate electricity. On the consumer side, the change not only allowed customers to receive better fuel price signals reflecting fuel price changes in the marketplace, but it also gave customers an incentive to conserve electricity during periods of high fuel costs.

### **How Often Does the PSC Adjust Fuel Prices?**

Over time, the PSC developed a less-frequent schedule for fuel proceedings in another effort to reduce regulatory costs. Initially, fuel proceedings took place every month, but the frequency of these

proceedings was altered so that "fuel adjustment hearings" could be held once a year in November. But in order for this process to work properly and efficiently, the PSC required the utilities to report any occurrence of annual fuel cost variance (whether above or below their annual fuel revenues) beyond a specific threshold percentage during the course of the year. In such cases, the Commission often imposes an adjusted rate in order to bring rates and costs back to equilibrium.

Prior to the annual fuel adjustment hearings, PSC staff gathers information from the utilities and intervening parties in order to address preliminary matters. During the hearings, witnesses from the utility, the Commission staff, the Office of Public Counsel, and any intervenors may present testimony and exhibits are introduced into the proceeding, thus establishing the official "record" in the case. Following the Commission vote, the new rates become effective on January 1 of the following year.

### **How Do Utilities And Consumers Benefit From Fuel Price Adjustments?**

Florida's investor-owned electric utilities are only allowed to recover fuel costs, purchased power costs, and fuel-related expenditures that are considered to be prudent and cost-effective by the PSC. If the PSC determines that the utilities have acted prudently, utilities can recover these costs from their customers on a dollar-for-dollar basis. Moreover, utilities do not profit from any customer charges related to fuel costs and this dollar-for-dollar recovery limit not only ensures that fuel price changes do not impact a utility's shareholders directly, but it also provides the utilities with a more-certain revenue stream to recover those expenditures. This more-certain revenue stream reduces the utility's cost of capital, provides more-stable earnings, and reduces investor uncertainty. On the consumer side, the utility's retail ratepayers and wholesale customers experience smaller price changes, reduced total costs, improved price signals, and a shorter regulatory lag. Finally, the PSC and the utilities experience less-frequent base rate proceedings because the remaining expenditures that comprise base rates are less volatile than fuel prices.

If you require additional information about the energy industry or are interested in learning how to conserve energy safely and efficiently, please contact the PSC's Division of Consumer Affairs toll-free at 1-800-342-3552, or by e-mail at [contact@psc.state.fl.us](mailto:contact@psc.state.fl.us). The PSC's Web site is located at [www.floridapsc.com](http://www.floridapsc.com) and offers information on a range of energy topics. Please feel free to visit this Web site to review our many brochures and reports about electric safety and conservation education.

**Braulio L. Baez is the Chairman of the Florida Public Service Commission. The PSC sets the rates regulated utility companies charge for natural gas, electric and telephone service within the state. In 36 counties, it sets the price you pay for the water you drink, if your water company is privately owned.**