



KNOW YOUR FLORIDA PUBLIC SERVICE COMMISSION

Matthew M. Carter II, Commissioner

Fuel Adjustments ~The Cost of Fuel

During the last two years, you have undoubtedly felt the pinch from increases in the price of various fuels you use to meet your daily needs, like gasoline, diesel, and propane. Like the general public, electric utilities are heavily dependent on the volatile price of fuels such as oil and natural gas. Just as fuel price increases impact your personal finances, the finances of an electric utility are also impacted by fuel price volatility. Over time, public utility commissions throughout the United States, including the Florida Public Service Commission (PSC), have developed regulatory tools that allow utilities to adjust to fuel price volatility without having to frequently engage in lengthy, costly, and contentious rate cases. One such tool is known in the industry as a fuel adjustment clause.

The fuel adjustment clause is a clause contained in the electric company's tariff filed with and approved by the PSC. A tariff is a public document setting forth the services offered by a utility, the rates and charges for those services, and governing rules, regulations and practices relating to those services. It generally includes the rights and responsibilities of a utility and of the utility's customers. The tariff's fuel adjustment clause provides a mechanism to annually (or more frequently under extreme circumstances) recalculate the amount the utility may charge for its fuel expenses. This annual recalculation avoids the "regulatory lag" associated with traditional ratemaking and softens the impact to customers of sharp increases in rates that would occur periodically under traditional ratemaking.

The cost of fuel used to generate electricity is the single largest expense a utility incurs. You may have seen an item on your electric bill called a "fuel charge" which represents a substantial share of the bill. This item reflects the actual fuel expenses incurred by the utility. The fuel charge is limited to a dollar-for-dollar recovery by the utility of cost-effective and prudent fuel expenditures. Because the electric utility is only entitled to recover the incremental increases in the cost of purchasing fuel, the changes in the fuel charge do not directly increase or decrease a

utility's profit. All profit earned by a utility is provided in its base rates.

Each year, the state's investor-owned utilities petition for adjustments in the fuel charge based on the change in the costs of fuel in the preceding period. The PSC opens a docket to evaluate the petition by hearing witnesses, taking evidence and weighing the claims of the utilities. The PSC conducts a full evidentiary hearing each November to try the petitions. In these proceedings, it is customary for representatives of the customers, like the Office of Public Counsel, AARP, the Florida Attorney General, and other interested parties to intervene in the case to ensure that all industry claims are fully tested and challenged.

In the end, the PSC authorizes each investor-owned electric utility to recover through the fuel clause those costs that may be volatile or beyond the utility's control, but only if the utility demonstrates that its expenditures have been prudent and cost effective. The PSC will disallow an expenditure when the record reflects that a utility acted imprudently based on information that was or should have been available to the management prior to the occurrence of a given act or event.

In November 2006, the PSC established the fuel adjustment charge that will be applied to electric bills in 2007. While these charges will result in a higher monthly fuel charge for customers of some investor-owned utilities in 2007, the charge to customers of other utilities will decrease. The fuel bills for customers of Florida Power & Light, Progress Energy Florida, and some customers of Florida Public Utilities Company will decrease, while the fuel bills for customers of Tampa Electric Company, Gulf Power, and the remaining customers of Florida Public Utilities Company will increase.

Although fuel charges will decrease for many customers, those customers may see an increase in monthly bills despite a reduction in fuel costs. Other utility costs that may be recovered from the ratepayer are also adjusted annually, like environmental cost recovery, and conservation cost recovery, and may offset the amount saved by a decrease in fuel costs.

If you would like more information on fuel price adjustments, including the actual amount of increase or decrease, and the impact it may have on your overall bill, please call the PSC at 1-800-342-3552. You may also contact us via Internet e-mail at contact@psc.state.fl.us, or at the PSC Web site at www.floridapsc.com.