

Matthew M. Childs, P.A.

June 18, 2001

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
4075 Esplanade Way, Room 110
Tallahassee, FL 32399

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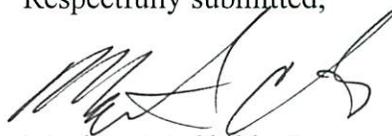
RE: Florida Power & Light Company's Staff Workshop Discussion Questions Length of Fuel Clause Recovery Period in Docket No. 010001-EI.

Dear Ms. Bayó:

Enclosed for filing is the original and fifteen (15) copies of Florida Power & Light Company's Staff Workshop Discussion Questions, Length of Fuel Clause Recovery Period.

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Respectfully submitted,



Matthew M. Childs, P.A.

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**Florida Power and Light Company
Docket No. 010001-EI
Staff Workshop Discussion Questions
Length of Fuel Clause Recovery Period
June 18, 2001**

FPL supports this First Alternative where fuel cost recovery factors are based on a six-month recovery period, commencing in January and July of each year.

First Alternative – Optional Six-Month Recovery Period, No Mid-Course Corrections

Under this alternative, each utility would propose its factors based on a six-month recovery period, commencing in January and July of each year. Subject to Commission approval, however, a utility could request to propose its respective factors based on a twelve-month recovery period for a minimum period of five years, commencing in January of each year. Also, the Commission would repeal parts 2 and 3 of the mid-course correction guidelines set forth by Order No. 13694, in Docket No. 840001-EI, issued September 20, 1984, for utilities who choose to remain on a 12-month recovery period.

Discussion Questions for First Alternative

- 1. How much forecast precision regarding fuel prices up to 18 months into the future can the Commission expect from a utility?**

The Commission can expect a reasonable level of precision, given an expected level of volatility, in the forecast of fuel prices developed by FPL. FPL's fuel price forecasts are based on information received from industry consultants and publications, and internal expertise from individuals who have many years of experience on both the supply and demand side of the energy business. FPL fuel price forecasts have generally been more accurate than forecasts received from industry consultants primarily due to the first hand information received from FPL's daily activity in the physical and financial marketplaces for each fuel. Both the physical and financial fuel markets are monitored on a daily basis, and assumptions and resulting forecasts are adjusted, accordingly, only when consistent market data, over time, supports a change.

Fuel price forecasts generally are more accurate when projections are developed as close to the projected period under review as possible. In this light, FPL's forecast for Fuel Cost Recovery and other filings are developed as close to the filing date as possible and are monitored closely up until the actual hearing date to ensure that all sustained changes in the marketplace are reflected in our view at the time of the hearing.

- 2. Has sufficient time elapsed since the Commission issued Order No. 98-0691 to gauge the success of an annual, calendar-year recovery period for the fuel cost recovery clause?**

Yes.

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3. Are the reasons the Commission cited in Order No. 98-0691 for changing to an annual, calendar-year recovery period still valid?

The reasons for changing to an annual, calendar-year recovery period are still valid but FPL believes that the increases and volatility in fuel prices experienced in the past two years outweigh these other reasons and support a six-month recovery period. In the mid-1990's, when annual adjustment clause factors were first suggested, FPL opposed the proposal because of the magnitude of the fuel adjustment clause. Later, in 1999, since fuel prices had been relatively stable over the proceeding 10 years and because many customers had expressed a desire to have stable electric charges that coincide with their annual budgets and operating plans, FPL supported a change to an annual, calendar year recovery period. Additional reasons for an annual, calendar year recovery period were that fuel data would be easier to use, audit, analyze and would be comparable to the manner in which other fuel data is reported to FERC, DOE and other agencies. These reasons, along with being able to provide customers with stable, annual, calendar year electric charges for their budgets, are still valid reasons today.

However, FPL believes that the increases and volatility in fuel prices experienced in the past two years outweigh these other reasons, but some of the efficiencies gained by going to an annual, calendar year recovery period can still be maintained if the six month fuel adjustment period commences in January. For example, the old way of setting factors April through September and October through March meant that customers saw three different charges during the year: One for January through March, then one for April through September, and last, one for October through December. Six-month charges that run January through June and July through December limit the change in electric charges to twice a year and setting a factor for January coincides with most customers' budgeting processes. Additionally, six-month periods that add up to a calendar year are easier to use, audit, analyze and are comparable to the manner in which other fuel data is reported to FERC, DOE and other agencies.

4. Is the recent volatility in natural gas and oil prices an anomaly or a harbinger of future conditions?

The recent runup in natural gas and oil prices was unprecedented. Prices have fallen as more supply has entered the market from increased drilling activity in the U.S, measured by active rig count being at all time highs, and a gradual buildup in oil and gas inventories reflecting increased worldwide supply of crude oil, increased refinery runs, and increased domestic supply of natural gas. Although prices have fallen, they are not expected to return to the 1998 and 1999 levels in the near future due to the continuing growth in the world and domestic economy and the resulting growth in the demand for fuel and energy.

5. What is each investor-owned electric utility doing to mitigate the impact of fuel price volatility on its ratepayers?

In order to mitigate the impact of fuel price volatility on customer bills, FPL spread the 2000 underrecovery over a two-year period. Additionally, FPL has taken a

number of steps to mitigate the impact of high fuel costs through Energy Portfolio Diversification, Asset Optimization, and Fuel Hedging resulting in more than \$150 million in fuel savings.

(1) Energy portfolio diversification

- FPL has a diversified energy and generation mix
- FPL is making economic purchases of power from lower-cost coal-based units to reduce consumption of oil and natural gas on its own system

(2) Asset optimization

- FPL is minimizing its use of higher-priced natural gas on its system by using the “fuel switching” capabilities of some of its plants to burn lower-priced oil
- FPL is selling excess oil-fired generation on the market and returning profits to FPL customers

(3) Fuel hedging

- Maximizing oil inventories
- Securing oil transportation to meet requirements
- Selling natural gas, and burning lower cost oil
- Utilizing natural gas storage
- Exchanging winter, for summer, natural gas
- Financially purchasing fixed price residual fuel oil when market opportunities arise
- Buying natural gas with embedded options resulting in below market pricing
- Optimizing FPL's firm gas transportation by selling delivered gas in the Florida markets when oil prices are below gas prices

6. How effective has each investor-owned electric utility's efforts to mitigate the impact of fuel price volatility on its ratepayers been?

As described in response to Question No. 5, FPL's efforts to mitigate the impact of fuel price volatility on customers include spreading the 2000 underrecovery over two years, Energy Portfolio Diversification, Asset Optimization, and Fuel Hedging.

Unprecedented increases in oil and gas prices have caused the fuel factor charged to customers to increase, however, these efforts to mitigate the impact of fuel price volatility have resulted in customers' bills being lower than they otherwise would be.

- 7. How would a six-month recovery period for the fuel cost recovery clause, commencing in January and July of each year, correspond to a utility's internal planning and budgeting processes?**

As long as the data commences in January, the first six months of the fuel adjustment will correspond with the budgeting process and the second six months will be updated to reflect current assumptions.

- 8. Would a seasonal, six-month recovery period for the fuel cost recovery clause, commencing in April and October of each year, be more appropriate than what staff has proposed in its first alternative?**

No. The proposed first alternative is a preferred option over a seasonal six-month recovery period for fuel cost commencing in April and October of each year. Six-month recovery period, commencing in January and July of each year coincides with several other planning processes. For example, the company wide official budget process, the Ten Year Site Plan process, the outage and maintenance schedules, as well as other filing requirements (with FERC and NERC) coincide with these dates. This would allow that instead of having several forecasts and planning assumptions, as well as several operating plans, within a given reporting cycle, to have all processes in sink utilizing a common and consistent set of assumptions. Six-month periods that add up to a calendar year are easier to use, audit, analyze and are comparable to the manner in which other fuel data is reported to FERC, DOE and other agencies.

Additionally, many customers have expressed a desire to have electric charges coincide with their annual budgets and operating plans and to have these charges remain stable for the year. The old way of setting factors April through September and October through March meant that customers saw three different charges during the year: One for January through March, then one for April through September, and last, one for October through December. Six-month charges that run January through June and July through December limit the change in electric charges to twice a year and setting a factor for January coincides with most customers' budgeting processes.

- 9. Assume that the Commission has remained on a seasonal, six-month recovery period, instead of approving a change to an annual, calendar-year recovery period by Order No. 98-0691. Would the last two rounds of petitions for mid-course corrections (i.e., approved in May 2000 and March 2001) for Florida Power & Light Company, Florida Power Corporation, and Tampa Electric Company have been required?**

Yes. Whether on a six-month basis or an annual basis, the unprecedented increases in oil and gas prices would have a greater than 10% impact on costs for the period, thus requiring a midcourse correction.

10. What criteria should the Commission use to determine whether a utility should remain on a twelve-month recovery period, instead of a six-month recovery period?

Since the amount of the variance is greater for a twelve-month period, the magnitude of potential over/under recoveries should be the deciding factor in determining whether to remain on an annual basis or implement a six-month recovery period.

11. What additional costs would a six-month recovery period for the fuel clause, commencing in January and July of each year, impose on the Commission and the parties?

Although administrative costs would increase, FPL believes the benefit of going to a six-month recovery period offsets this increase in costs.

Second Alternative – Annual Calendar-Year Recovery Period, Expedited Mid-course Correction

Under this alternative, the Commission would approve factors for each utility to collect the projected jurisdictional fuel and net transactions costs (adjusted for over- and under-recovered amounts) for the given calendar year. As an additional issue in the fuel docket, the Commission would approve minimum and maximum factors based on low band and high band forecasts of fuel prices, retail energy sales, system efficiency, and other assumptions the Commission may designate. The Commission would classify subsequent mid-course corrections during the calendar year as either within-band or outside-band. For a within-band mid-course correction (i.e., between the minimum and maximum factors, inclusive), the Commission would make a decision most expeditiously regarding the party's petition. If a party petitions for an outside-band mid-course correction (i.e., less than the minimum factor OR greater than the maximum factor), the Commission would conduct an evidentiary hearing before ruling on the party's petition.

This alternative does not contemplate any change in the notification requirements set forth at page 6 of Order No. 13694, issued September 20, 1984, in Docket No. 840001-EI, which states in pertinent part:

[W]hen a utility becomes aware that its project fuel revenues applicable to a given six-month recovery period will result in an over- or under-recovery in excess of 10 percent of its projected fuel costs for the period, the utility shall so advise the Commission through a filing promptly made.

Discussion Questions for Second Alternative

1. What impact, if any, would the adoption of staff's second alternative have on the fuel price forecasts that each utility uses to calculate its factors?

The adoption of staff's second alternative would have essentially no impact on the development of FPL's fuel price forecasts since a low and high price scenario forecasts for oil and natural gas are developed each time the most likely or base

case forecast is produced. However, the second alternative would require the development of energy sales by band which FPL currently does not produce for Fuel Cost Recovery.

2. What additional costs will an evidentiary hearing place on the Commission and the parties if a party requests an outside-band mid-course correction?

Additional costs would be comparable to the cost of a regular fuel cost recovery proceeding.

3. If a party petitions for a within-band mid-course correction, what information should the party include in its petition?

The petition should include its current estimated/ actual true up amount and corresponding E Schedules.

4. When evaluating the low and high band forecasts for fuel prices, retail energy sales, and system efficiency, what standards or criteria should the Commission use when setting the minimum and maximum factors?

Low and high bands are designed to account for variability that is difficult to project due to factors outside of the control of the forecaster or planner. Bands and their corresponding implied bandwidths are mere statements of the likeliness or chances the projected values will fall within the band ranges. As such, bands can be constructed for any level of certainty desired. The wider the bands the higher the certainty that a projected value will fall within a specified range. However, unless the bands are extremely wide, therefore rendering them useless for planning purposes, there is always the chance that the actual values could fall outside specified ranges.

High and low bands constructed on the basis of historical variability observed for fuel prices, retail energy sales, and system efficiency are appropriate planning tools. The width or probability statement that should be employed is a function of the amount of the potential over/ under recovery the parties involved would be willing to endure. In general, for certain types of work 80 or 90 % confidence intervals (bands) are appropriate. Recognizing, however, that there is still a 5 to 10 % probability that the projected values could fall outside the calculated bands.

5. Although not an established benchmark, a utility previously deferred requesting a mid-course correction until the utility experiences a ten- percent variance in actual and projected fuel revenues and costs. Given the difference between the minimum and maximum factors, would the Commission conduct an evidentiary hearing for most requests for a mid-course correction?

Under this alternative, there would only be an evidentiary hearing when there is a request for an outside-band mid-course correction. Whether or not the Commission would conduct evidentiary hearings for some requests for midcourse corrections depends upon the minimum and maximum factors. As stated in response to Question No. 4, in general, for certain types of work 80 or 90 % confidence intervals

(bands) are appropriate, however, there is still a 5 to 10 % probability that the projected values could fall outside the calculated bands.

6. Does the Commission have the authority to approve a within-band mid-course correction administratively?

The Commission could pre-approve banded factors and establish standards which if met would justify a correction. However, there may be difficulties in conferring the discretion to approve a correction where standards have not yet been established.

7. Does the Commission have the authority to limit the number of within-band mid-course corrections a party may request during a calendar year?

Rather than limiting the number of requests, the midcourse corrections would be limited to the instances where it would be appropriate and practical to change the factor.