BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2000-001-E - ORDER NO. 2000-0299

MARCH 31, 2000

IN RE: Annual Review of Base Rates for Fuel Costs of Carolina Power & Light Company.	)	ORDER
	)	APPROVING BASE
	)	RATES FOR FUEL
	)	COSTS

On March 23, 2000, the Public Service Commission of South Carolina ("the Commission") held a public hearing on the issue of the recovery of the costs of fuel used in the sale of electricity by Carolina Power & Light Company ("CP&L" or "the Company") to provide service to its South Carolina retail electric customers. The procedure followed by the Commission is set forth in S.C. Code Ann. §58-27-865 (Supp. 1999). The review of this case is from January 1999 through December 2000.

At the public hearing, William F. Austin, Esquire, and Len S. Anthony, Esquire, represented CP&L; Elliott F. Elam, Jr., Esquire, represented the Intervenor, the Consumer Advocate for the State of South Carolina ("the Consumer Advocate"); and Florence P. Belser, Staff Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of Michael J. Settlage, Ernest J. Boyd, and Ronald R. Penny on behalf of CP&L; the testimony of Jacqueline R. Cherry and A. R. Watts on behalf of the Commission Staff; and six (6) hearing exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The record of this proceeding indicates that for the period from January 1999 through December 1999, CP&L's total fuel costs for its electric operations amounted to $607,426,010. Hearing Exhibit No. 5, Auditing Department Exhibit E.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for CP&L's fossil, nuclear, and hydroelectric plants for January 1999 through December 1999. The fossil generation ranged from a high of 59% in August to a low of 46% in November. The nuclear generation ranged from a high of 53% in November to a low of 41% in August. The percentage of generation by hydro ranged from a high of 2% in January and May to a low of 0% in August through October. Hearing Exhibit No. 6, Utilities Department Exhibit No. 3.

3. During the January 1999 through December 1999 period, coal suppliers delivered 11,030,776.62 tons of coal. The Commission Staff's audit of CP&L's actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from $40.37 per ton in April to $44.89 per ton in July. Hearing Exhibit No. 5, Auditing Exhibit A.

4. According to CP&L's witness Michael J. Settlage, the performance of CP&L's nuclear units equals or exceeds that of comparable facilities as demonstrated thusly:

CP&L system actual capacity factors –

CP&L data for PWRs January 1999-December 1999	95.7%	1 unit refueled
CP&L data for BWRs January 1999-December 1999	91.6%	1 unit refueled

National average capacity factors -

NERC data for PWRs 5 year 1994-1998	78.2%
NERC data for BWRs 5 year 1994-1998	67.6%

5. Staff collected and reviewed certain generation statistics of major CP&L plants for the twelve months ending December 31, 1999. Hearing Exhibit No. 6, Utilities Department Exhibit 4. The nuclear fueled Robinson 2 plant had the lowest average fuel cost at 0.47 cents per kilowatt-hour. The highest amount of generation was 14,649,653 megawatt-hours produced at the coal fueled Roxboro Plant.

6. The Commission Staff conducted an extensive review and audit of CP&L's fuel purchasing practices and procedures for the subject period. The Staff's

accounting witness, Jacqueline R. Cherry, testified that CP&L's fuel costs, as adjusted by Staff, were supported by the Company's books and records. Testimony of Cherry; Hearing Exhibit No. 5, Accounting Department Exhibits.

7. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of anticipated or projected costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. S.C. Code Ann. §58-27-865 (Supp. 1999) establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

8. The record of this proceeding indicates that the comparison of CP&L's fuel revenues and expenses for the review period ending March 2000, including estimated fuel costs for the months of January 2000, February 2000, and March 2000, and Staff and Company proposed adjustments produces an under-recovery of $8,896,659. Staff calculated an under-recovery of $17,967,157 for the period of January 1999 through December 1999 to which Staff added the projected under-recovery of $580,965 for the month of January 2000, the projected over-recovery of $79,659 for the month of February 2000, and the projected under-recovery of $428,196 for the month of March 2000 to arrive at a cumulative under-recovery of $18,896,659 as of March 2000.

CP&L accepted Staff's adjustments to the cumulative fuel costs and made certain other adjustments totaling $10,000,000 to reduce the under-recovery to $8,896,659. Testimony of Cherry, p. 4.; Additional Testimony of Penny, p. 1; Hearing Exhibit No. 4, Penny Exhibit 4A; Hearing Exhibit No. 5, Auditing Exhibit G.

9. CP&L's projected average fuel expense for the period of April 2000 through March 2001 is 1.234 cents per kilowatt-hour. Penny Testimony, p. 1; Hearing Exhibit No. 4, Penny Exhibit 3A.

10. Company witness Penny proposed that the Commission approve a new fuel factor of 1.265 cents per kilowatt-hour for the next twelve-month period. Penny stated that a fuel factor of 1.265 cents per kilowatt included the amount necessary for CP&L to recover its projected fuel costs for the time period April 2000 through March 2001 and will recover $2.2 million, or 25%, of the under-recovered fuel expense. Penny also proposed that the Commission allow CP&L to spread the collection of the remaining under-recovery over a period of time not to exceed the next three fuel case. Penny, Additional Direct Testimony, p. 1-2; Hearing Exhibit No. 4, Penny Exhibit 3A.

11. Using the currently projected sales and fuel cost data and the adjusted and projected under- recovery of $8,896,659 through March 2000, the average projected fuel expense is estimated to be 1.358 cents per kilowatt-hour. The currently approved fuel factor is 1.122 cents per kilowatt-hour. Applying the currently approved fuel factor of 1.122 cents per kilowatt-hour would produce an estimated under-recovery for the next period of $26,882,636, exclusive of CP&L's adjustment of $10,000,000 to reduce the

under-recovery. Testimony of Watts from Hearing; Hearing Exhibit No. 6, Utilities Department Exhibit 10.

12. During the period under review, Brunswick Unit 2 and Robinson Unit 2 were down for refueling during some portion of the period. The nuclear units operated well during the period under review. All outages were reviewed by Staff (Hearing Exhibit No. 6, Utilities Department Exhibit 2A), and a determination was made by Staff as to the prudency of the outages. Staff determined that there were no Company actions which required CP&L's customers to be subject to incurring higher fuel costs. Therefore, no disallowances of any fuel costs during the review period were recommended. Staff also examined records and determined that CP&L had achieved an actual capacity factor of 93.6%. Testimony of Watts, p. 2.

13. According to CP&L witness Settlage, the Company's nuclear generation system achieved a net capacity factor of 93.6%. Witness Settlage also testified that excluding outage time associated with reasonable refueling outages raised the net capacity factor to approximately 97.7%. Testimony of Settlage, p. 5.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann., § 58-27-865(B)(Supp. 1999), each electrical utility must submit to the Commission its estimates of fuel costs for the next twelve (12) months. Following an investigation of these estimates and after a public hearing, the Commission directs each electrical utility "to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by

the Commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period." Id.

2. As stated by the Supreme Court in Hamm v. South Carolina Public Service Commission, 291 S.C. 178, 352 S.E.2d 476, 478 (1987), Section 58-27-865(F) requires the Commission "to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the higher fuel costs to its customers." "[T]he rule does not require the utility to show that its conduct was free from human error; rather it must show it took reasonable steps to safeguard against error." Id. at 478, citing Virginia Electric and Power Co. v. The Division of Consumer Council, 220 Va. 930, 265 S.E.2d 697 (1980).

3. The Commission recognizes that Section 58-27-865(F) provides it with the authority to consider the electrical utility's reliability of service, its economical generation mix, the generating experience of comparable facilities, and its minimization of the total cost of providing service in determining to disallow the recovery of any fuel costs.

4. Further, S.C. Code Ann. § 58-27-865 (F) (Supp. 1999) provides that:

> [t]here shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system ... if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling, reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the

> reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units associated with bringing a unit back to full power after an outage; Nuclear Regulatory Commission required testing outages unless due to the unreasonable acts of the utility; outages found by the [C]ommission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity being less than the full power output of the utility's nuclear generation system. If the net capacity factor is below ninety-two and one-half percent after reflecting the above specified outage time, then the utility shall have the burden of demonstrating the reasonableness of its nuclear operations during the period under review.

5. After considering the directives of §58-27-865 (B) which require the Commission to place in effect a base fuel cost which allows the Company to recover its fuel costs for the next twelve months adjusted for the over-recovery or under-recovery from the preceding twelve month period the Commission determines that the appropriate base fuel factor for April 2000 through March 2001 is 1.265 cents per kilowatt-hour. The Commission finds that a 1.265 cents per kilowatt-hour fuel component will allow CP&L to recover its projected fuel costs and 25% of the under-recovered costs as of March 2000 while, at the same time, prevent abrupt changes in charges to CP&L's customers. The Commission finds that a 25% recovery of the under-recovered costs of fuel is appropriate and that CP&L should be allowed to spread collection of the remaining under-recovery over a period of time not to exceed the next three fuel cases. The Commission finds that a staggered recovery of the under-recovery as proposed by CP&L will minimize abrupt changes in charges to consumers and will, the Commission anticipates, work to ensure public confidence.

IT IS THEREFORE ORDERED THAT:

1. The base fuel factor for the period April 2000 through March 2001 is set at 1.265 cents per kilowatt-hour.

2. CP&L shall comply with the notice requirements set forth in S.C. Code Ann., § 58-27-865(B)(Supp. 1999) and shall send notice of the fuel factor increase to the utility customers with the next billing.

3. CP&L shall continue to file the monthly reports as previously required.

4. CP&L shall account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.

5. CP&L shall submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

6. The Staff is instructed to monitor the cumulative recovery account.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Philip T. Bradley
Chairman

ATTEST:

Gary E. Walsh
Executive Director

(SEAL)