

BEFORE THE MISSISSIPPI PUBLIC SERVICE COMMISSION

MISSISSIPPI POWER COMPANY
EC-120-00097-00

DOCKET NO. 2000-UN-943

IN RE: NOTICE OF MISSISSIPPI POWER COMPANY OF INTENT TO CHANGE RATES TO ESTABLISH AND ADOPT ITS ENERGY COST MANAGEMENT CLAUSE, RATE SCHEDULE "ECM."

ORDER

THIS CAUSE came on for consideration by the Mississippi Public Service Commission on the request of Mississippi Power Company (the Company or MPC) for approval of its proposed Energy Cost Management Clause, Rate Schedule "ECM" ("ECM Clause"). The Public Service Commission ("Commission"), being fully apprised in the premises and having considered the documents and the record before it, including the testimony and cross-examination of the witness at the hearing of this cause and the stipulation entered into by and between the Mississippi Public Utilities Staff (Staff) and the Company, finds as follows:

INTRODUCTORY MATTERS

1.

Mississippi Power Company is a public utility as defined in Section 77-3-3(d)(i) of the *Mississippi Code of 1972, as amended*, and is engaged in the business of providing electric service to and for the public for compensation in 23 counties of southeastern Mississippi, having its principal place of business at Gulfport, Mississippi. The Company's mailing address is Post Office Box 4079, Gulfport, Mississippi, 39502-4079.

2.

MPC is the holder of a Certificate of Public Convenience and Necessity issued in Docket No. U-99, as supplemented from time to time, authorizing its operations in specified areas of the 23 counties of southeastern Mississippi and is rendering service in accordance with its service rules and regulations and in accordance with schedules of rates and charges, all of which are a part of its tariff that has been previously approved by order of this Commission.

3.

MPC is a Mississippi corporation. A copy of its corporate charter, articles of incorporation, the names and addresses of its board of directors and officers, and the name of all persons owning fifteen percent (15%) or more of its stock are on file with this Commission and are hereby incorporated by reference.

PROCEDURAL HISTORY

4.

On October 17, 2000, this Commission ordered MPC to develop and present, for this Commission's consideration, an energy cost management program and an appropriately designed recovery mechanism that would recognize and flow the economic substance of the program to retail customers.

5.

On November 20, 2000, MPC filed its Notice of Intent to Change Rates to Establish and Adopt its Energy Cost Management Clause, Rates Schedule "ECM." The ECM Clause has been designed and presented to this Commission and to the Staff by the Company as a means to mitigate the effects of volatile fuel prices and to better synchronize the cost recovery of fuel and energy

transactions.

6.

Due and proper notice of the Company's filing was published in the Clarion Ledger, on December 5, 2000, a newspaper of general circulation in Mississippi. Colonial Pipeline Company ("Colonial") and the Mississippi Manufacturers Association ("MMA") each intervened in this proceeding pursuant to separate orders of this Commission.

7.

The Staff conducted a thorough investigation of the Company's proposal. The Staff's investigation in this docket included seventy-three (73) data requests, to which the Company responded in accordance with the Rules. These data requests and the non-confidential responses thereto were furnished to the intervenors. Subsequent to its investigation, on May 25, 2001, the Staff entered into a stipulation of certain facts and findings with the Company (Stipulation).

8.

Notice of the hearing of this matter was given as required by law to all persons interested therein by mailing such notice to each such interested party. On May 30, 2001, this Commission held a hearing on the Company's proposal in this docket. MMA filed written comments regarding the Company's proposal. In its comments, MMA acknowledged the benefits of hedging, but suggested that the Company share in the gains and losses associated with the hedging program as an incentive for the Company to efficiently manage its energy cost management program. MMA was present at the hearing, presented opening remarks, and was allowed by this Commission to fully participate.

9.

At the hearing of this matter, the Company's witness, Frances Turnage, adopted the Company's filing and the Stipulation. Thereafter, the witness was tendered for cross-examination at which time MMA, the Staff and the Commission conducted cross-examination of Ms. Turnage.

10.

In the cross-examination, Ms. Turnage responded to MMA's suggestion that MPC share in the gains and losses associated with an energy cost management program. Ms. Turnage testified that the Company's Performance Evaluation Plan provides adequate incentives to the Company to manage its total costs, including its fuel and energy costs. Ms. Turnage also testified that the sharing of gains and losses would actually provide disincentives to the Company and would negatively impact the effectiveness of the program. Ms. Turnage testified that if the Company shared in losses from the program, it could result in a shortfall in the recovery of prudently incurred fuel and energy costs. On the other hand, if the Company shared in gains from the program, it would have a greater incentive to engage in "trading" activities as opposed to only engaging in "hedging" activities.

JURISDICTION AND SUFFICIENCY OF FILING

11.

This Commission has jurisdiction over the parties and subject matter in this proceeding.

12.

The Company has provided information sufficient for this Commission's and the Staff's consideration of this matter. The pleadings, testimony, data, documentation and exhibits in this docket comply with all applicable requirements of Mississippi statutes and the Commission's Public

Utilities Rules of Practice and Procedure. Therefore, for good cause shown, this Commission waives any other filing requirements as prescribed by this Commission's Rules.

ADOPTION OF THE STIPULATION

13.

On May 25, 2001, the Staff and Company entered into and filed with this Commission a Stipulation of the facts and issues associated with the Company's request to establish its ECM Clause in this docket. Based upon the matters stipulated to by and between the Staff and the Company, the Staff recommended that this Commission approve the Company's ECM Clause, as modified by the Stipulation.

14.

This Commission has reviewed the Stipulation and finds that there is sufficient evidence in the record to support each and every agreement made in the Stipulation and to approve the Company's request in this docket, as modified by the Stipulation and this Order. Based upon the substantial evidence in the record, including the filing in this docket, the testimony of the witness, the cross-examination at the hearing, and the Stipulation which followed an extensive investigation by the Staff, this Commission, relying upon its experience and expertise in such matters, finds that the Company's proposal, as modified by the Stipulation and this Order, is just and reasonable and that retail customers will benefit from the Company's proposal, as modified by the Stipulation and this Order. This Commission hereby adopts the entire Stipulation dated May 25, 2001, and incorporates the Stipulation herein by reference, as modified by this Order.

RATE SCHEDULE "ECM"

15.

This Commission finds that Company's generation fuel mix has been diversified with the recent commissioning of Plant Daniel Units 3 & 4 (approximately 1064 MW of new combined-cycle natural gas fired generation). With a more diverse fuel mix, in particular a heavier reliance on natural gas, comes more volatility and less predictability of fuel and electricity prices. Natural gas is a commodity and its price is influenced by many different market factors. Due to the volatility of natural gas and the Company's projected increase in natural gas usage, this Commission finds that MPC should no longer rely primarily on spot market purchases for its natural gas requirements.

16.

This Commission finds that hedging is a reasonable and prudent method of mitigating fuel and energy price volatility. However, without the ECM Clause, the current regulatory structure creates a mismatch in the recovery of hedging gains and losses and other costs associated with such a program. The ECM Clause will enable the benefits and costs of energy cost management of fuel procurement and other energy cost management activities to be synchronized with the recovery of the fuel costs allowed under the Fuel Cost Recovery Clause, Rate Schedule "FCR-1" as same may be amended from time to time by order of this Commission.

17.

This Commission finds that the ECM Clause provides a just and reasonable formula for calculating Energy Cost Management Factors to be applied on a kWh basis to all bills rendered under rates subject to the ECM Clause, and in conjunction with the Company's other rate clauses under its tariff, provides adequate incentives to the Company to continue to efficiently manage its

fuel and energy procurement processes to ensure a reliable fuel and energy supply at reasonable costs, and to mitigate the price volatility prevalent in today's fuel and energy markets, and that no further incentive is necessary.

18.

This Commission has carefully considered MMA's request to require the Company to share in the gains and losses associated with its energy cost management activities. After considering all of the evidence in the record on sharing of gains and losses, including MMA's comments and Ms. Turnage's extensive testimony on the subject at the hearing, this Commission finds that the sharing of gains and losses would have a negative impact on the Company's energy cost management program. Sharing of gains and losses could result in a shortfall in the recovery of prudently incurred fuel and energy costs and could encourage the Company to engage in "trading" activities instead of focusing the program on "hedging." Neither result is in the best interest of the Company or its customers. Therefore, this Commission finds that sharing of gains and losses should not be included in the Company's energy cost management program.

19.

This Commission finds that, based upon the substantial evidence in the record, including the filing in this docket, the testimony of the witness, the cross-examination at the hearing, the Stipulation which followed an extensive investigation by the Staff, and other documents on file with this Commission, the ECM Clause as proposed by the Company and as modified by the Stipulation and this Order is just, reasonable and in the best interest of the Company and its customers and should be approved as a lawful rate of the Company.

WHEREFORE, PREMISES CONSIDERED, this Commission having heard and carefully reviewed the evidence in the record in this docket, finds that Mississippi Power Company's request, as modified by the Stipulation and this Order, are well taken and should be granted.

IT IS THEREFORE,

ORDERED, that the Stipulation, as modified by this Order, is adopted by this Commission.

ORDERED, that upon filing by the Company of a revised rate schedule consistent with this Order, the Company's proposed Energy Cost Management Clause, Rate Schedule "ECM," as revised, shall become a lawful rate of MPC.

ORDERED, that the ECM Clause shall apply as a modification to all electric service rate schedules of the Company, and that Energy Cost Management Factors per kilowatt hour shall be calculated and filed each November to be applied January through December immediately following the calculation month. The factors shall include a true-up adjustment for any over or under collection in the preceding November through October. In connection with this calculation, the Company shall file a report setting forth the results of its energy cost management program for the preceding twelve months. The ECM factors for 2001 will be zero. Any costs, gains and losses experienced in 2001 will be included in the true up filed in November 2001, to be applied in 2002.

ORDERED, that Budgeted Energy Cost Management Costs in the Company's ECM Clause and in its annual filings thereunder shall include:

- (1) budgeted transaction costs for entering forward or financial contracts, such as option premiums for both gas and electricity futures contracts and budgeted gas transportation and electric transmission necessary to meet futures contract obligations;

obligations;

- (2) amounts representing the difference between budgeted natural gas cost included in the Company's fuel cost recovery clause for the twelve-month application period and the exercise price of any forward or financial instrument applicable to the same period and entered into by October 31st immediately preceding the calculation month;
- (3) the budgeted costs of capacity payments for short-term (three years or less) electricity purchased power contracts (subject to the provisions of Section 77-3-91, et seq., of the *Mississippi Code of 1972, as amended*); and
- (4) the projected carrying costs of the balance of over-or-under-recoveries in Rate Schedule "FCR-1" and Rate Schedule "ECM," determined by multiplying: (A) the Company's latest approved benchmark cost of capital adjusted for taxes, times (B) the monthly ending balances in (i) over-or-under-recovered retail fuel cost, as determined in Rate Schedule "FCR," net of related accumulated deferred income taxes, plus (ii) over-or-under-recovered energy cost management costs, as provided in Rate Schedule "ECM," net of related accumulated deferred income taxes, and excluding (a) any over-or-under-recovery attributable to carrying costs, and (b) mark-to-market amounts on open hedge positions and their related SFAS No. 71 assets and liabilities.

ORDERED, that Actual Energy Cost Management Costs in the Company's ECM Clause and in its annual filings thereunder shall include:

- (1) actual transaction costs for entering forward or financial contracts, such as option premiums for both gas and electricity futures contracts, the actual costs of gas

transportation and electric transmission necessary to meet futures contract obligations;

- (2) the actual costs of capacity payments for short-term (three years or less) electricity purchased power contracts (subject to the provisions of Section 77-3-91, et seq., of the *Mississippi Code of 1972, as amended*);
- (3) the actual carrying costs of the balance of over-or-under-recoveries in Rate Schedule "FCR" and Rate Schedule "ECM," determined by multiplying: (A) the Company's latest approved benchmark cost of capital adjusted for taxes, times (B) the monthly ending balances in (i) over-or-under-recovered retail fuel cost, as determined in Rate Schedule "FCR," net of related accumulated deferred income taxes, plus (ii) over-or-under-recovered energy cost management costs, as provided in Rate Schedule "ECM," net of related accumulated deferred income taxes, and excluding (a) any over-or-under-recovery attributable to carrying costs, and (b) mark-to-market amounts on open hedge positions and their related SFAS No. 71 assets and liabilities; and
- (4) any gains and/or losses recognized as a result of energy cost management transactions for the twelve (12) month period immediately preceding the calculation month. Gains or losses on fixed-price physical contracts shall be recognized when fuel that was purchased forward is neither burned nor placed in storage, but instead sold at then-current spot market prices.

ORDERED, that in conjunction with the filing of its Energy Cost Management Factors in November of each year, the Company shall present to this Commission and the Staff an energy cost

management plan for the next application period, including a projection of the Company's fuel and energy requirements. These projections may be updated from time to time by the Company to reflect any significant changes thereto.

ORDERED, that on or before the 15th working day of each month, the Company shall file a report with this Commission and the Staff setting forth the energy cost management activity under the ECM Clause for the previous month, including a report of the net results of closed positions, and "mark-to-market" (i.e., the difference between current market and the Company's open positions) values of open transactions as of the last day of the reporting month.

ORDERED, that to ensure that the ECM Clause is utilized for "hedging" risks, and not to encourage "trading" activities or arbitrage by the Company, the Company is hereby required to adhere to the requirements of Statement of Financial Accounting Standards No. 133, Accounting for Derivatives Instruments and Hedging Activities, as amended, and as same may be amended in the future. This Commission further requires the Company to apply the requirements of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, to its activities under the ECM Clause.

ORDERED, that the Company shall at all times adhere to Southern Company's risk management policies and controls as they may pertain to MPC's fuel and energy hedging activities.

ORDERED, that the related fuel and energy costs and benefits included in the ECM Clause are "at cost" transactions and that the operation of the ECM Clause shall be "at cost."

ORDERED, that fuel and energy derivatives shall be used by the Company only to hedge risks or as specifically authorized in the business of fuel and/or energy procurement. All fuel and energy derivatives shall have proper accounting documentation and controls in place, including

identification, measurement, management, and reporting of the risks to the Chief Financial Officer of Mississippi Power Company.

ORDERED, that, with respect to natural gas requirements for its retail jurisdictional customers, the Company shall not enter into any fixed price hedging arrangements (which includes fixed price physical forward contracts) in any fashion for a quantity in excess of 75% of the quantity of natural gas anticipated to be consumed to supply retail jurisdictional customers. This Commission recognizes that the Company has entered into fixed price physical forward contracts for natural gas for jurisdictional customers for a portion of its anticipated natural gas consumption for 2001, 2002, and 2003 which may exceed this limit. After settlement of these arrangements, and their incorporation in ECM, in the future, the Company shall limit the use of fixed price physical forward contracts for natural gas for its retail jurisdictional customers to no more than 20% of the quantity of natural gas anticipated to be consumed to supply its retail jurisdictional customers. The Company shall take no further action, as of the date of the Stipulation that exceeds the limits prescribed herein.

ORDERED, that the Company shall file a revised Rate Schedule "ECM" consistent with the terms of this Order, including filing any adjustments to the Company's existing rate schedules necessary to account for the implementation of Rate Schedule "ECM" in the Company's rates.

ORDERED, that this Order shall be effective upon issuance, and that the Company's Rate Schedule "ECM" as revised and filed consistent with this Order, shall be effective at the time it is filed with this Commission, and shall apply to all energy cost management arrangements for fuel or energy settled on or after June 1, 2001.

ORDERED, that this Commission reserves the right to terminate the Company's energy cost management program at any time upon notification to the Company, without hearing. In that event,

the Company shall be permitted to recover any costs or losses, or pass along any benefits of its ECM program related to retail service as of the date of termination, in a manner to be determined by this Commission.

Chairman Nielsen Cochran voted Aye; Vice-Chairman Michael Callahan voted Aye; Commissioner Bo Robinson Aye.

SO ORDERED, this the 18th day of JUNE, 2001.

MISSISSIPPI PUBLIC SERVICE COMMISSION



Nielsen Cochran
Nielsen Cochran, Chairman

Michael Callahan
Michael Callahan, Vice-Chairman

Bo Robinson
Bo Robinson, Commissioner

Attest: A True Copy

Brian U. Ray
Executive Secretary