



Florida Public Service Commission

# SPECIAL REPORT

JULY 2005 NO. 8

## Petition for a Rate Increase By **Progress Energy Florida, Inc.**

In April of 2005, Progress Energy Florida, Inc. (PEF or the company) filed a petition with the Florida Public Service Commission (PSC or Commission) for approval of a permanent increase in rates and charges sufficient to generate additional total annual base revenues of approximately \$205,556,000 on an annual basis beginning January 1, 2006. In addition, PEF requested approval of certain changes to the terms of existing rate schedules, the withdrawal of certain non-cost-effective interruptible and curtailable rate schedules closed to new customers since 1996, the approval of changes in existing service charges and other related adjustments. The Commission last granted PEF a rate increase by Order No. PSC-93-0303-AS-EI, issued February 25, 1993. PEF also reduced its base rates under the Stipulation and Settlement approved by the Commission in Order No. PSC-02-0655-AS-EI, issued May 14, 2002.

In its petition, PEF requests new rates and charges based upon its projected "test year" operations ending December 31, 2006. According to the petition, the requested test year will more accurately depict the conditions that PEF will face during the first twelve months new rates will be in effect than would a test year based on a historical period that does not include the new investment associated with the new capital additions, discussed below. A "test year" is a 12-month period used in ratemaking proceedings to compute current levels of investment and income in order to determine the amount of revenue that will be required to allow the utility the opportunity to earn a fair return on its investment. The PSC staff adjusts test year data to properly reflect conditions in the future period for which the rates are being fixed.

PEF states that there are several factors that necessitate its request for an increase in base rates. Specifically, the company has identified the following factors: (1) an increase in number and increase in the demand of customers; (2) capital addition of two new power plants, Hines Units 2 and 3 in 2005; (3) capital expenditures for its nuclear division, steam generator replacements, and additions to transmission and distribution plant; (4) a requested increase in the annual accrual for storm costs; (5) the increase in operation and maintenance costs of the nuclear units because of increased regulatory requirements; (6) approval of PEF's

Depreciation Cost Study, Nuclear Decommissioning Cost Study, and Fossil Plant Dismantlement Cost Study; (7) an increase in operation and maintenance costs due to the addition of the new units and due to the aging of PEF's nuclear and steam fleet. According to the company, its present rates are insufficient to support the needs of the company and its customers.

PEF serves approximately 1.5 million retail customers in its service area in Florida. Its service area is comprised of approximately 20,000 square miles in 35 of the state's 67 counties. Its service area encompasses the cities of St. Petersburg and Clearwater and densely populated areas surrounding Orlando, Ocala, and Tallahassee. PEF supplies electricity at retail to approximately 350 communities and at wholesale to about 21 Florida municipalities, utilities, and power agencies.

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### **PSC Staff and Reference Numbers**

DOCKET NO. 050078-EI

#### **For technical questions, contact:**

Denise Greene (850) 413-7011  
David Wheeler (850) 413-6670

#### **For legal questions, contact:**

Jennifer Brubaker (850) 413-6228

#### **For general questions, contact:**

Dick Durbin (850) 413-6121

Or call toll-free 1-800-342-3552  
(1-800-511-0809 to fax)

E-mail: [contact@psc.state.fl.us](mailto:contact@psc.state.fl.us)  
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# P S C   C O M M I S S I O N E R S



COMMISSIONER

Lisa Polak Edgar



COMMISSIONER

J. Terry Deason



CHAIRMAN

Braulio L. Baez



COMMISSIONER

Rudolph "Rudy" Bradley

VACANT

**Braulio L. Baez** was appointed to the Florida Public Service Commission by Governor Jeb Bush on August 23, 2000, to complete a term ending January 2002. He was then reappointed by the Governor to a four-year term ending January 2006. Prior to his appointment, Chairman Baez was an attorney in Miami, Florida, with a statewide practice representing municipal and county governments in telecommunications, cable franchising and other regulatory matters. He was Executive Assistant to Commissioner Joe Garcia from 1994 to 1998. A native of South Florida, Chairman Baez received his undergraduate degree from Florida International University in 1988, and his Juris Doctorate degree from Nova University, Shepard Broad Law Center, in 1993. Chairman Baez is a member of the National Association of Regulatory Utility Commissioners Committees on Electricity and International Relations, and has served as President of the Southeastern Association of Regulatory Utility Commissioners. He was named to the State Regulatory Advisory Council to the FCC Federal Advisory Committee on Diversity in the Digital Age. He is a member of Leadership Florida Class XXII, the Florida Bar, and is a past Director of the Hispanic Bar Association, 2nd Judicial District.

**J. Terry Deason** was first appointed to the Commission by the Florida Public Service Commission Nominating Council in January 1991 for a term ending in January 1995. He was subsequently reappointed by the late Governor Lawton Chiles for a term ending in January 1999. Commissioner Deason was then reappointed by Governor Jeb Bush to a term ending in January 2003, and to his current term which ends in January 2007. Commissioner Deason has served as Chairman of the Commission on two occasions, from January 1993 to January 1995, and from July 2000 to January 2001. Commissioner Deason is an active member of the National Association of Regulatory Utility Commissioners (NARUC). He currently serves on NARUC's Board of Directors, its Finance and Technology Committee, and the Federal/State Joint Conference on Accounting. Commissioner Deason also serves on the executive committee for the Nuclear Waste Strategy Coalition. Prior to his appointment, he served as Chief Regulatory Analyst in the Office of Public Counsel. In that capacity, he was responsible for the coordination of accounting and financial analysis used by the Public Counsel in cases before the Public Service Commission, presented testimony as an expert witness, and consulted with the Public Counsel on technical issues and ratemaking policies concerning regulated utilities in the State of Florida. From 1981 to 1987, Commissioner Deason served as Executive Assistant to PSC Commissioner Gerald L. Gunter, during which time he reviewed and analyzed staff recommendations and advised the Commissioner on those recommendations and other pertinent policy determinations. From 1977 to 1981, he served as a Legislative Analyst with the Office of Public Counsel. He attended the U.S. Military Academy at West Point, and in 1975 received his bachelor of science degree in accounting, summa cum laude, from Florida State University. He also received his master of accounting degree from FSU in 1989.

**Rudolph "Rudy" Bradley** was appointed to the Florida Public Service Commission by Governor Jeb Bush for a four year term beginning January 8, 2002. Commissioner Bradley serves on the National Association of Regulatory Utility Commissioners' Committees on Consumer Affairs, Water, and International Relations. He is also a member of the Energy Market Access Partnership Board which is a joint project between the Department of Energy and the National Association of Regulatory Utility Commissioners. Prior to his appointment to the Commission, Commissioner Bradley served as a member of the Florida Legislature for seven years representing District 55 which includes Pinellas, Manatee and Hillsborough Counties. As a member of the Legislature, he served as the Vice Chairman of the Utilities and Telecommunications Committee and as the Chairman of the Select Committee on Energy Restructuring. Commissioner Bradley also served as the Chairman of the Business Development and International Trade Committee and Chairman of the Economic Development Council. As a legislator, Commissioner Bradley maintained a special interest in improving Florida's educational system and expanding business opportunities for all citizens. Commissioner Bradley earned his Bachelor of Science Degree from the University of Tampa and his Masters Degree from the University of Michigan. He served as an educator in Pinellas County for several years and he developed several private enterprises involving real estate and livestock.

**Lisa Polak Edgar** was appointed to the Florida Public Service Commission by Governor Jeb Bush for a four year term beginning January 2005. Commissioner Edgard served as Deputy Secretary for Planning and Management for the Florida Department of Environmental Protection (DEP) from August 1999 through January 2005. Ms. Edgard's responsibilities included oversight of the agency's \$2.1 billion budget, fiscal and strategic planning, accountability measures, information technology, administrative services, and coordination between the state and federal government on environmental issues, including oil and gas drilling on the Outer Continental Shelf. Prior to serving at DEP, Commissioner Edgard served as chief analyst on Environmental Policy for the Executive Office of the Governor. There Commissioner Edgard helped develop state policy on issues regarding the environment and natural resources, energy, transportation, and economic and community development. She served as liaison with state and federal agencies, Congressional delegation and staff, Cabinet offices, and the Florida Legislature. During her career in public service, Commissioner Edgard has also served as a senior cabinet aide in the Department of Agriculture and Consumer Services, as staff counsel and legislative analyst for the Florida Senate Committees on Reapportionment and Regulated Industries, completed the Harvard Kennedy School of Government program for Senior Executives in State and Local Government, and co-taught a special topics graduate course on the Everglades at Florida A&M University. Commissioner Edgard served as the State of Florida representative to the Minerals Management Service Advisory Board's Outer Continental Shelf (OCS) Policy Committee from 1993-2003, serving on the Subcommittees on Environmental Studies in OCS Areas under Moratoria and OCS Hard Minerals. She was appointed in 2004 to represent the State of Florida on the re-established Department of the Interior Outer Continental Shelf Policy Committee. Commissioner Edgard graduated cum laude from Florida State University in 1985 with a Bachelor's degree in political science and minor in English. She studied in London during her undergraduate education and in Yugoslavia during law school. She received a juris doctorate from the Florida State University College of Law in 1988 and is a member of the Florida Bar.

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While PEF's proposed residential rate increase will vary based on kilowatt-hour usage, residential customers who use 1,000 kilowatt-hours a month would pay an additional \$3.79 beginning in January of 2006, excluding any applicable franchise fees and local taxes. This represents a total increase of approximately 3.9% when compared to PEF's rates effective August 2005.

A number of consumer representatives have intervened in the rate case, including the Office of Public Counsel (OPC), which represents the citizens in public utility regulatory matters, AARP, the Florida Retail Federation, the Florida Industrial Power Users Group, and White Springs Chemical Company. These parties oppose all or part of Progress' requested increase. The OPC, for example, advocates a rate reduction of approximately \$360 million per year, asserting that Progress has requested an excessive rate of return, has requested an excessive increase in annual accruals to its storm damage reserve, has overstated its projected payroll

costs and numerous other cost items, and has accumulated an excessive depreciation reserve of more than \$1 billion that should be used to reduce future rates. OPC estimates that its proposed decrease would reduce the bill for a residential customer using 1,000 kilowatt-hours per month by about \$6.60 per month.

The PSC has scheduled four customer service hearings to provide customers an opportunity to comment on the quality of service PEF provides and the proposed rate increase. In accordance with Florida Statutes, the PSC will consider the utility's quality of service and other matters in this case.

The technical hearing is scheduled for September 7-16, 2005 in Tallahassee. In making its final determination, the Commission will consider the evidence and testimony presented by PEF, customers, OPC, and other parties.

PSC staff is scheduled to file a recommendation to establish the final revenue requirements on November 9, 2005. The Commissioners are expected to vote on this matter at the November 21, 2005, Special Agenda Conference. A Commission vote on the final rates is scheduled for November 29, 2005.

### **1,000 Kilowatt-hour Residential Electric Bill August 2005 vs. Company Requested**

Shown below is a monthly electric bill comparison for a residential customer who uses 1,000 kilowatt-hours of electricity. The comparison shows what customers pay effective August 2005, and what they would pay based on the rate increase that PEF has requested. The increase is expected to become effective in January 2006. The bills include the currently effective Fuel, Conservation, Capacity, and Environmental Cost Recovery Charges, and the Commission-approved Storm Cost Recovery Surcharge that will become effective in August 2005. The bills do not include any local taxes or franchise fees that may also apply. Based on this comparison, the bill for a customer using 1,000 kilowatt-hours a month will increase by 3.9%.

Bill Component	Effective August 2005	Requested Effective January 2006	Difference
Customer Charge	\$8.03	\$8.03	-
Non-Fuel Energy Charge *	\$33.15	\$37.74	\$4.59
Energy Conservation Cost Recovery	\$1.69	\$1.69	-
Environmental Cost Recovery	\$1.27	\$1.27	-
Capacity Cost Recovery	\$8.75	\$8.75	-
Storm Cost Recovery Surcharge **	\$3.27	\$3.27	-
Fuel Cost Recovery ***	\$39.18	\$38.28	-\$0.90
Gross Receipts Tax	\$2.44	\$2.54	\$0.10
<b>Total Monthly Bill</b>	<b>\$97.78</b>	<b>\$101.57</b>	<b>\$3.79</b>

\* On the bill, this charge is combined with the Energy Conservation, Environmental, Capacity, and Storm Cost Recovery charges.

\*\* This charge has been approved by the Commission and becomes effective in August 2005.

\*\*\* Decrease reflects the company's proposal to shift recovery of some costs from fuel cost recovery to base rates.

## Consumer Statements at PSC Hearings

The Commissioners are interested in what consumers have to say about the petition for a rate increase by Progress Energy Florida, Inc. The main purpose of these hearings is to receive comments from the public.

Anyone may make a statement, and speaking is an effective way to let the Commissioners know how you feel about the case under review. At the beginning of the hearings, procedures will be set up to establish an order for comments. PSC staff will have sign-up sheets that will be used to call consumers to speak. PSC staff will also be available to coordinate consumer comments and assist members of the public.

Any person who wishes to comment or provide information to the PSC staff regarding this matter may do so at the hearings, orally or in writing. Written comments also may be mailed to: Florida Public Service Commission, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, or faxed to 1-800-511-0809. Correspondence will be placed in the file of this docket (Docket No. 050078-EI). For your convenience, a comment form is attached to this Special Report.

Any person who wishes to obtain a copy of the recommendation or the order may do so by writing to: Florida Public Service Commission, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, or by going on-line at [www.floridapsc.com](http://www.floridapsc.com).

## Customer Service Hearings

### Wednesday, July 20, 2005

11:00 a.m.

Ocala City Council Chambers  
City Hall  
151 S.E. Osceola Avenue  
Ocala, Florida

### Thursday, July 21, 2005

9:00 a.m.

Sunshine Center Auditorium  
330 5<sup>th</sup> Street North  
St. Petersburg, Florida

6:00 p.m.

Commissioners Assembly Room  
Pinellas County Board of Commissioners  
315 Court Street, 5<sup>th</sup> Floor  
Clearwater, Florida

### Wednesday, September 7, 2005

9:30 a.m.

Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida

## Florida Public Service Commission

2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

The Public Service Commission provides a staff of information specialists who are available to answer questions from Florida consumers.

To reach a consumer representative, please call the Public Service Commission during business hours at **1-800-342-3552**, or send a fax to 1-800-511-0809. See the PSC's Internet home page at [www.floridapsc.com](http://www.floridapsc.com).



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Florida Public Service Commission  
Division of the Commission Clerk and Administrative Services  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

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