

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Commission approval of
base rate increase for costs associated with
CR3 uprate project, pursuant to Section
366.93(4), F.S. and Rule 25-6.0423(7), F.A.C.,
by Progress Energy Florida, Inc.

DOCKET NO. 090421-EI
ORDER NO. PSC-09-0837-PAA-EI
ISSUED: December 21, 2009

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
NANCY ARGENZIANO
NATHAN A. SKOP
DAVID E. KLEMENT

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING BASE RATE INCREASE FOR COSTS
ASSOCIATED WITH CR3 UPRATE PROJECT

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

BACKGROUND

In 2006, the Florida Legislature adopted Section 366.93, Florida Statutes (F.S.), encouraging the development of nuclear energy in the state. The Legislature directed us to adopt rules providing for alternate cost recovery mechanisms that would encourage investor-owned electric utilities to invest in nuclear power plants. We adopted Rule 25-6.0423, F.A.C., which provides for an annual clause recovery proceeding to consider investor-owned utilities' requests for cost recovery for nuclear plants.

We granted Progress Energy Florida, Inc.'s (PEF or Company) need determination for the Crystal River 3 (CR3) Uprate on February 8, 2007.¹ Once completed, the CR3 Uprate will provide an additional 180 megawatts of nuclear generation. The CR3 Uprate will be accomplished in three phases: Phase 1, Measurement Uncertainty Recapture (MUR); Phase 2, Balance of Plant (BOP); and Phase 3, Extended Power Uprate (EPU). The reasonableness and

¹Order No. PSC-07-0119-FOF-EI, issued February 8, 2007, in Docket No. 060642-EI, In re: Petition for determination of need for expansion of Crystal River 3 nuclear power plant, for exemption from Bid Rule 25-22.082, F.A.C., and for cost recovery through fuel clause, by Progress Energy Florida, Inc.

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prudence of the construction expenditures related to each phase of the CR3 Uprate project are subject to review in the Nuclear Cost Recovery Clause.²

Phase 1, the MUR phase, was completed during the 2007 refueling outage and went online on January 31, 2008. We granted PEF a \$1,297,979 base rate increase for that phase in Docket No. 080603-EI, effective with the first billing cycle in January 2009.³

Items associated with Phase 2, the BOP phase, will go into service during 2009. On August 28, 2009, pursuant to Rule 25-6.0423(7), F.A.C., PEF filed a petition to increase its base rates by the \$16,559,938 revenue requirement associated with that phase. According to PEF, these items do not increase the licensed output of the nuclear reactor, but will improve the efficient use of that output.⁴ PEF also has requested an additional \$756,338 base rate increase for the 5-year amortization of EPU assets that are being retired during 2009 pursuant to Rule 25-6.0423(7)(e), F.A.C. In total, PEF has requested a base rate increase of \$17,316,276.

On October 30, 2009, PEF filed an Amended Petition agreeing with proposed adjustments to reduce the requested total base rate increase from \$17,316,276 to \$16,812,605. PEF also requested that the proposed base rate increase be made effective with the first billing cycle in January 2010.

We have jurisdiction over this matter pursuant to the provisions of Section 366.93, F.S., and other provisions of Chapter 366, F.S.

DECISION

PEF initially requested approval to increase its base rates by \$16,559,938 for the BOP phase of the uprate project. Rule 25-6.0423(7), F.A.C., provides:

(7) Commercial Service. As operating units or systems associated with the power plant and the power plant itself are placed in commercial service:

(a) The utility shall file a petition for Commission approval of the base rate increase pursuant to Section 366.93(4), F.S., separate from any cost recovery clause petitions, that includes any and all costs reflected in such increase, whether or not those costs have been previously reviewed by the Commission; provided, however, that any actual costs previously reviewed and determined to be prudent in the Capacity Cost Recovery Clause shall not be subject to disallowance or further prudence review except for fraud, perjury, or intentional withholding of key information.

(b) The utility shall calculate the increase in base rates resulting from the

² Docket No. 090009-EI, In re: Nuclear cost recovery clause.

³ Order No. PSC-08-0779-TRF-EI, issued November 26, 2008, in Docket No. 080603-EI, In re: Petition for expedited Commission approval of base rate increase for costs associated with MUR phase of CR3 uprate project, pursuant to Section 366.93(4), F.S. and Rule 25-6.0423(7), F.A.C., by Progress Energy Florida, Inc.

⁴ PEF Petition, p.3, filed August 28, 2009.

jurisdictional annual base revenue requirements for the power plant in conjunction with the Capacity Cost Recovery Clause projection filing for the year the power plant is projected to achieve commercial operation. The increase in base rates will be based on the annualized base revenue requirements for the power plant for the first 12 months of operations consistent with the cost projections filed in conjunction with the Capacity Cost Recovery Clause projection filing.

(c) At such time as the power plant is included in base rates, recovery through the Capacity Cost Recovery Clause will cease, except for the difference between actual and projected construction costs as provided in subparagraph (5)(c)4. above.

(d) The rate of return on capital investments shall be calculated using the utility's most recent actual Commission adjusted basis overall weighted average rate of return as reported by the utility in its most recent Earnings Surveillance Report prior to the filing of a petition as provided in paragraph (7)(a). The return on equity cost rate used shall be the midpoint of the last Commission approved range for return on equity or the last Commission approved return on equity cost rate established for use for all other regulatory purposes, as appropriate.

(e) The jurisdictional net book value of any existing generating plant that is retired as a result of operation of the power plant shall be recovered through an increase in base rate charges over a period not to exceed 5 years. At the end of the recovery period, base rates shall be reduced by an amount equal to the increase associated with the recovery of the retired generating plant.

In compliance with this Rule, PEF submitted its calculation of the annualized base revenue requirements for the BOP phase for the first 12 months of operations. This calculation is shown on Schedule 1. We find that PEF's calculation was made in compliance with Rule 25-6.0423(7), F.A.C., but PEF included depreciation based on the rates proposed in its current rate case.⁵ It is premature to use the depreciation rates proposed in the rate case, because they have not been approved yet. Instead, the rates we authorized in Order No. PSC-05-0945-S-EI are the appropriate rates to be used in the revenue requirement calculation.⁶ As shown on Schedule 1, using the currently approved depreciation rates reduces the jurisdictional revenue requirement from \$16,559,938 to \$16,175,437, a reduction of \$384,501. We approve the \$16,175,437 base rate increase. As discussed above, PEF agreed with this adjustment in its Amended Petition.

The 2009 expenditures related to the BOP phase are still under review in Docket No. 090009-EI. We will not make a final determination of the reasonableness and prudence of the 2009 expenditures until 2010. Attachment A to PEF's petition indicates that the increase in Electric Plant in Service included in the calculation is \$111,441,133 (\$102,156,973 jurisdictional), net of joint owners. If the \$111,441,133 amount is revised based on a final audit

⁵ Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc.

⁶ Order No. PSC-05-0945-S-EI., issued September 28, 2005, in Docket No. 050078-EI, In re: Petition for rate increase by Progress Energy Florida, Inc.

and review of the 2009 expenditures, the annual revenue requirement will have to be recalculated. This would require a true-up of the revenues already collected and a revision of the related tariffs. Therefore, we will make our approval of the \$16,175,437 base rate increase subject to true-up and revision based on our final review of the 2009 BOP phase expenditures in Docket No. 090009-EI.

PEF has also requested approval to increase its base rates by \$756,338 for the 5-year amortization of EPU assets that are being retired during 2009, pursuant to Rule 25-6.0423(7)(e), F.A.C., which states:

The jurisdictional net book value of any existing generating plant that is retired as a result of operation of the power plant shall be recovered through an increase in base rate charges over a period not to exceed 5 years. At the end of the recovery period, base rates shall be reduced by an amount equal to the increase associated with the recovery of the retired generating plant.

According to Attachment C to PEF's petition, the net book value of the EPU asset retirements will be \$7,200,939 at December 31, 2009. This results in an annual amortization of \$1,440,188 over the 5-year period. In addition, PEF has proposed to offset the annual amortization by an annual depreciation credit of \$615,113, which results in a net annual amortization of \$825,075 (\$756,338 jurisdictional). The depreciation credit recognizes that the retired EPU assets are included in PEF's projected 2010 test year in its rate case in Docket No. 090079-EI.⁷

PEF's calculation included depreciation based on the rates proposed in its rate case in Docket No. 090079-EI. It is premature to use the depreciation rates proposed in the rate case. Instead, the rates we authorized in Order No. PSC-05-0945-S-EI are the appropriate rates to be used in the revenue requirement calculation. As shown on Schedule 1, using the currently approved depreciation rates increases the jurisdictional depreciation credit from \$563,868 to \$683,038, an increase of \$119,170. As a result, the jurisdictional 5-year amortization amount is decreased from \$756,338 to \$637,168, a reduction of \$119,170. We approve \$637,168 as the appropriate annual amount for the 5-year amortization of the EPU assets that are being retired during 2009. PEF agreed with this adjustment in its Amended Petition.

In its initial petition, PEF requested that the revenue requirement approved in this docket be added to the approved revenue requirement increase in its pending base rate proceeding in Docket No. 090079-EI. Since we deferred consideration of the base rate proceeding until January 2010, in its Amended Petition PEF has requested implementation of revised base rates with the first billing cycle for January 2010.

The first billing cycle day for January 2010 falls on December 28, 2009, which is less than 30 days from our vote, which was December 1, 2009. Consistent with our prior decisions that any changes in base rates become effective 30 days following our vote, we find that the

⁷ Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc.

revised base rates shall become effective for meter readings taken on or after December 31, 2009.

In its Amended Petition, PEF provided a revised Attachment F showing a calculation of the current and proposed base rate energy charges based on the increase of \$16,812,605. (See Schedule 2) The increase is allocated to the rate classes consistent with PEF's current 12 Coincident Peak and 1/13 Average Demand method. PEF states that it will file tariff sheets for administrative approval. The total base rate increase recommended in Issues 1 and 2 results in a \$0.57 increase in the 1,000 kilowatt-hour residential bill.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Petition for Commission approval of base rate increase for costs associated with CR3 uprate project, pursuant to Section 366.93(4), F.S. and Rule 25-6.0423(7), F.A.C., by Progress Energy Florida, Inc. is approved as described in the body of this order. It is further


ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 21st day of December, 2009.

ANN COLE
Commission Clerk

By:



Hong Wang
Management Review Specialist

(S E A L)

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 11, 2010.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

PROGRESS ENERGY FLORIDA, INC.
DOCKET NO. 090421-EI
EPU Assets Placed in Service In 2009
First 12 Months Revenue Requirements Summary Schedule

Line No.	PEF		COMMISSION	
	SYSTEM	RETAIL @ 91.669%	SYSTEM	RETAIL @ 91.669%
1	<u>Annualized Rate Base</u>			
2	111,441,133	102,156,973	111,441,133	102,156,973
3	(1,654,283) ¹	(1,516,465) ¹	(1,425,324) ²	(1,306,579) ²
4	-----	-----	-----	-----
5	(1,493,868)	(1,369,414)	(1,406,475)	(1,289,301)
6	<u>108,292,982</u>	<u>99,271,094</u>	<u>108,609,334</u>	<u>99,561,093</u>
7				
8	<u>Annualized NOI</u>			
9	-----	-----	-----	-----
10	3,308,567 ¹	3,032,930 ¹	2,850,647 ²	2,613,160 ²
11	1,302,700	1,194,172	1,302,700	1,194,172
12	-----	-----	-----	-----
13	-----	-----	-----	-----
14	(1,778,796)	(1,630,605)	(1,602,154)	(1,468,678)
15	(1,208,940)	(1,108,223)	(1,210,796)	(1,109,924)
16	<u>(1,623,531)</u>	<u>(1,488,274)</u>	<u>(1,340,398)</u>	<u>(1,228,729)</u>
17				
18				
19	<u>Calculation of Revenue Requirement</u>			
20	8.71%	8.71%	8.71%	8.71%
21	9,433,402	8,647,505	9,459,873	8,671,771
22	11,056,932	10,135,779	10,800,271	9,900,500
23	1.6338	1.6338	1.6338	1.6338
24				
25	<u>18,064,927</u>	<u>16,559,938</u>	<u>17,645,482</u>	<u>16,175,437</u>
26				
27	1,440,188	1,320,206	1,440,188	1,320,206
28	(615,113) ¹	(563,868) ¹	(745,993) ²	(683,038) ²
29				
30	<u>18,890,002</u>	<u>17,318,276</u>	<u>18,339,677</u>	<u>16,812,605</u>
31				
32	<u>Calculation of Taxes on Imputed Interest</u>			
33	Weighted Cost of Debt Capital (per June 2009 Surveillance):			
34	2.76%	2.76%	2.76%	2.76%
35	0.00%	0.00%	0.00%	0.00%
36	0.00%	0.00%	0.00%	0.00%
37	0.13%	0.13%	0.13%	0.13%
38	0.00%	0.00%	0.00%	0.00%
39	<u>2.89%</u>	<u>2.89%</u>	<u>2.89%</u>	<u>2.89%</u>
40				
41	3,133,999	2,872,905	3,138,810	2,877,316
42	(1,208,940)	(1,108,223)	(1,210,796)	(1,109,924)

Notes: ¹PEF's depreciation rates are based on the rates proposed in the 2010 rate case in Docket No. 090079-EI.

²Commission's depreciation rates are based on the current Commission-approved rates.

Schedule 2

Rate Schedule	Type of Charge	Cents / KWH		\$ / KWH	
		Current Rate	Approved Rate	Actual Billing Rate (CSS) Current Rate	Approved Rate
RS-1	Energy and Demand Charge				
RST-1	Standard				
RSS-1	0 - 1,000 KWH	3.592	3.649	0.03592	0.03649
RSL-1	Over 1,000 KWH	4.592	4.649	0.04592	0.04649
RSL-2	Time of Use - On Peak	11.212	11.269	0.11212	0.11269
	Time of Use - Off Peak	0.569	0.626	0.00569	0.00626
GS-1	Energy and Demand Charge				
GST-1	Standard	3.923	3.964	0.03923	0.03964
	Time of Use - On Peak	11.211	11.252	0.11211	0.11252
	Time of Use - Off Peak	0.568	0.609	0.00568	0.00609
GS-2	Energy and Demand Charge	1.473	1.503	0.01473	0.01503
GSD-1	Energy Charge				
GSDT-1	Standard	1.618	1.655	0.01618	0.01655
	Time of Use - On Peak	3.566	3.603	0.03566	0.03603
	Time of Use - Off Peak	0.568	0.605	0.00568	0.00605
CS-1	Energy Charge				
CS-2	Standard	1.057	1.090	0.01057	0.01090
CS-3	Time of Use - On Peak	1.966	1.999	0.01966	0.01999
CST-1	Time of Use - Off Peak	0.567	0.600	0.00567	0.00600
CST-2					
CST-3					
IS-1	Energy Charge				
IS-2	Standard	0.700	0.730	0.00700	0.00730
IST-1	Time of Use - On Peak	0.993	1.023	0.00993	0.01023
IST-2	Time of Use - Off Peak	0.567	0.597	0.00567	0.00597
LS-1	Energy and Demand Charge	1.555	1.564	0.01555	0.01564
SS-1	Energy Charge	0.683	0.720	0.00683	0.00720
SS-2	Energy Charge	0.682	0.712	0.00682	0.00712
SS-3	Energy Charge	0.682	0.715	0.00682	0.00715