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COMMISSION CLERK

-M-E-M-O-R-A-N-D-U-M-

DATE: June 17, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Wheeler) DPW CSL JDJ
Office of the General Counsel (Brown) MCB WDH

RE: Docket No. 040085-EI – Petition for approval of new curtailable service rate Schedules CS-3 and CST-3 by Progress Energy Florida, Inc.

AGENDA: 06/29/04 – Regular Agenda – Tariff Filing – Interested Persons May Participate

CRITICAL DATES: 60-Day Suspension Date: 07/18/04

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\040085A.RCM.DOC

Case Background

On January 30, 2004, Progress Energy Florida, Incorporated (PEF) filed a petition in this docket seeking Commission approval of two proposed new rate schedules: Curtailable General Service – Fixed Curtailable Demand Rate Schedule CS-3 and Curtailable General Service – Fixed Curtailable Demand Rate Schedule CST-3 - Optional Time of Use.

At its March 30, 2004 Agenda Conference, the Commission approved the proposed new rate schedules, and they became effective on that date (See Order No. PSC-04-0399-TRF-EI issued on May 16, 2004). On May 19, 2004, PEF filed an amendment to their petition that proposes changes to the approved rate schedules.

The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, and 366.06, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve Progress Energy Florida, Inc.'s (PEF'S) proposed changes to its Curtailable General Service – Fixed Curtailable Demand Rate Schedule CS-3 and Curtailable General Service – Fixed Curtailable Demand Rate Schedule CST-3 - Optional Time of Use rate schedules?

Recommendation: Yes. (Wheeler)

Staff Analysis: PEF has proposed changes to its Curtailable General Service - Fixed Curtailable Demand CS-3 (CS-3) and Curtailable General Service - Fixed Curtailable Demand CST-3 - Optional Time of Use (CST-3) Rate Schedules. These schedules were recently approved by the Commission in this docket (See Order No. PSC-04-0399-TRF-EI issued on May 16, 2004).

Curtailable rates are optional non-firm offerings under which all or a portion of the customer's electric load is subject to curtailment during periods when the utility requires the released power to serve its firm customers or to supply emergency power to other utilities to serve their firm load. Curtailable customers must reduce their electric load when requested to do so by the utility, and if they fail to do so, they pay a substantial penalty. In return for curtailing when requested, customers receive a credit on their bills. Prior to the approval of the new CS-3 and CST-3 rate schedules, PEF offered and continues to offer curtailable service under its CS-2 and CST-2 rates.

When PEF proposed the two new curtailable rate schedules, many of the terms and conditions that were a part of its existing CS-2 and CST-2 curtailable rate schedules were retained. Among these was a provision that specified that the credit the customer is paid in return for allowing curtailment will be adjusted based on the customer's billing load factor. The load factor is the relationship between the customer's maximum demand for the month in kilowatts (kW) and their energy use in kilowatt-hours (kWh). PEF has proposed to eliminate this adjustment to the credit paid under the CS(T)-3 rate schedules.

Under the CS(T)-2 rates, credits are paid based on the difference between the customer's maximum kW demand for the month (whenever it occurs) and the customer's specified level of firm demand. CS(T)-2 customers are deemed to have complied with their requirement to curtail if they reduce their demand to their specified level of firm demand when requested. Because there is no assurance that the amount of demand reduction achieved will be equal to the demand upon which the credit is paid, the credit is adjusted based on the customer's load factor. The higher the customer load factor, the higher is the likelihood that the full level of demand reduction will be achieved, and thus the higher the credit the customer receives. The load factor adjustment thus insures that the credits paid more accurately reflect the achieved level of curtailment.

PEF believes that this adjustment is not appropriate under the CS(T)-3 rates because of the difference in the way that the credits are determined under these schedules. Under the new rates, customers are paid a credit based on their specified level of curtailable demand. CS-3 and CST-3 customers are deemed to have complied with their requirement to curtail if their demand during the curtailment period is lower than that for the period immediately prior to the curtailment by at least the level of their specified level of curtailable demand. This method insures that the customer will provide the full amount of demand reduction for which they are receiving credit. PEF thus asserts, and staff agrees, that there is no need to adjust the credit based upon the customer's load factor in this case. Staff therefore recommends that the proposed tariff revision be approved.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, this tariff should become effective on June 29, 2004. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Brown)

Staff Analysis: Yes. If Issue 1 is approved, this tariff should become effective on June 29, 2004. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.