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 Subject: Docket 060642  
 Attachments: PEF Prehearing Statement.pdf

ORIGINAL

Attached for filing and service is Progress Energy Florida, Inc.'s Prehearing Statement. Paper service copies will be sent by U.S. Mail.

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12/18/2006

**ORIGINAL**

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**In re: PEF's Petition for Determination )  
of Need for Expansion of an Electrical )  
Power Plant, for Exemption from Rule )  
25-22.082, F.A.C., and for Cost Recovery )  
through the Fuel Clause )  
\_\_\_\_\_ )**

Docket No.: 060642

Submitted for Filing: December 18, 2006

**PROGRESS ENERGY FLORIDA, INC.'S  
PREHEARING STATEMENT**

Progress Energy Florida, Inc. ("PEF" or the "Company") hereby submits its Prehearing Statement in this matter, and states as follows:

**A. APPEARANCES:**

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**B. WITNESSES AND EXHIBITS:**

In identifying witnesses and exhibits herein, PEF reserves the right to call such other witnesses and to use such other exhibits as may be identified in the course of discovery and preparation for the final hearing in this matter.

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In addition, PEF understands that the cost recovery issues raised in its Petition will be severed and addressed separately in this Docket at a later, mutually agreeable time. Accordingly, this prehearing statement does not include the cost recovery issues raised by the Petition, rather, PEF only includes the issues from its Petition related to the need determination and the Bid Rule exemption. To the extent that this assumption is inaccurate or the cost recovery portion of PEF's Petition is not severed and addressed separately for any reason, however, PEF reserves the right to file an amended prehearing statement to include the cost recovery issues in the issues to be resolved at this time in the proceeding and in the subject matter portions of the witness' testimony.

**1. WITNESSES.**

**Direct Testimony.**

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
Javier Portuondo	The increased fuel savings, diversity, and reliability achieved through the CR3 Uprate	PEF's Issues 1-4, 6-10; Staff's Preliminary Issues 1-4, 6-7
Daniel L. Roderick	General overview of the CR3 Uprate, PEF's need for the CR3 Uprate, the fuel diversity and environmental benefits created with the CR3 Uprate, the estimated costs for the CR3 Uprate, the adverse consequences of delaying the CR3 Uprate, and why compliance with the Bid Rule would not result in a lower-cost alternative or otherwise serve the public welfare	PEF's Issues 1-4, 6-10; Staff's Preliminary Issues 1-4, 6-7
Samuel S. Waters	The benefits of the CR3 Uprate including the estimated fuel savings generated by the CR3 Uprate, the need for the CR3 Uprate, why conservation measures will not mitigate the need for the CR3 Uprate, and the fuel diversity and reliability created with the CR3 Uprate	PEF's Issues 1-10; Staff's Preliminary Issues 1-7

**2. EXHIBITS.**

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
JP-1	Portuondo	Excerpt of Schedule B-13 of Minimum Filing Requirement submitted in Docket No. 050078-EI
JP-2	Portuondo	Excerpt of Schedule B-2 of Minimum Filing Requirement submitted in Docket No. 050078-EI
JP-3	Portuondo	Excerpt of Schedule B-1 of Minimum Filing Requirement submitted in Docket No. 050078-EI
DLR-1	Roderick	Aerial view of Crystal River Complex, including CR3
DLR-2	Roderick	Photo of primary plant configuration for pressurized water reactor nuclear plant at CR3 that shows major components of nuclear reactor and primary coolant system
DLR-3	Roderick	Schematic of major components in primary system and balance of nuclear plant that shows major components in secondary systems, including main turbine and main generator
SSW-1	Waters	Summary of Annual Fuel Savings of Proposed Power Upgrade to CR3
SSW-2	Waters	Summary of Overall Cost Effectiveness of the Proposed Power Upgrade to CR3 to the retail customer

**D. PEF'S STATEMENT OF BASIC POSITION:**

PEF seeks an affirmative determination of need for the CR3 Uprate to reduce fuel costs to PEF's customers over the extended life of CR3 by increasing power production from low cost nuclear fuel and replacing generation from higher cost fossil fuels and purchase power. The CR3

Uprate will result in increased fuel diversity, substantial fuel cost savings, a reduction in fossil fuel-based generation, and a reduced reliance on out-of-state energy suppliers.

The CR3 Uprate is expected to generate approximately \$2.6 billion in gross fuel savings over the extended life of CR3, at an estimated cost of \$381.8 million. The substantial economic benefits demonstrate the economic need for the CR3 Uprate. The additional base load generation from the lowest cost fuel available to PEF will provide customers adequate electricity at a reasonable cost. Because the CR3 Uprate will provide additional generation at a net savings – not a net cost --- to customers, the CR3 Uprate is, by definition, the most cost effective alternative available.

Likewise, the CR3 Uprate will advance the goals of conservation measures in Florida, because it will reduce generation with higher cost fossil fuels and fossil fuel emissions at substantial fuel savings to customers from relatively clean nuclear generation, while avoiding the CR3 Uprate with conservation measures will increase reliance on fossil fuels, increase emissions, and increase costs to customers. For all these reasons, the Commission should grant PEF's request for a determination of need for the CR3 Uprate pursuant to Section 403.519, Fla. Stats. of the Florida Electrical Power Plant Siting Act ("PPSA").

The net fuel savings to customers from the CR3 Uprate necessarily means the CR3 Uprate is a lower cost supply of reliable electricity that serves the public welfare and, thus, is exempt from all Bid Rule requirements under Rule 25-22.082(18), F.A.C. Further, compliance with the Bid Rule request for proposal requirements will delay the CR3 Uprate beyond the current planned fuel outages with the loss of fuel savings to customers. PEF's request for an exemption from all Bid Rule requirements should be granted.

For all these reasons, as more fully developed in PEF's pre-filed testimony and exhibits, PEF respectfully requests that the PSC grant a favorable determination of need for the CR3 Uprate.

**E. PEF'S STATEMENT OF ISSUES AND POSITIONS:**

**1. FACTUAL ISSUES.**

**ISSUE 1:** Is there a need for the proposed CR3 Uprate, taking into account the need for electric system reliability and integrity, as this criterion is used in Section 403.519?

**PEF Position: Yes. PEF's proposed CR3 Uprate will provide a reliable, stable source of base load power, but the need for the CR3 Uprate is an economic need not reliability need. The CR3 Uprate will displace higher cost fossil fuel and purchase power generation with low cost nuclear generation, resulting in substantial fuel savings that provide a net benefit to customers. The CR3 Uprate's substantial economic benefits satisfy the statutory need requirements under Commission precedent and Rule 25-22.081(3),**

F.A.C. recognizing an economic or socio-economic need for new generation. (Portuondo, Roderick, Waters)

**ISSUE 2:** Is there a need for the proposed CR3 Uprate, taking into account the need for adequate electricity at a reasonable cost, as this criterion is used in Section 403.519?

**PEF Position:** Yes. Nuclear energy is the lowest cost energy available on PEF's system. Producing additional nuclear energy from the CR3 Uprate, therefore, will produce energy at the lowest possible generation fuel cost. By definition, the lowest cost energy is a reasonable cost. (Portuondo, Roderick, Waters)

**ISSUE 3:** Is there a need for the proposed CR3 Uprate, taking into account the need for fuel diversity and supply reliability, as this criterion is used in Section 403.519?

**PEF Position:** Yes. The proposed CR3 Uprate will improve fuel diversity and supply reliability. The CR3 Uprate provides a stable source of additional base load power. Nuclear generation is not subject to the same supply interruptions or changes and price volatility that can affect generation with fossil fuels. Rather, the supply of nuclear fuel is relatively plentiful and stable in price. The Company, its customers, and the State, thus, will benefit from increased price stability, enhanced fuel diversity, and decreased reliance on foreign fuel sources resulting from the addition of nuclear capacity to the Company's system. (Portuondo, Roderick, Waters)

**ISSUE 4:** Is the CR3 Uprate Project the most cost-effective alternative available, as this criterion is used in Rule 25-22.082(18)?

**PEF Position:** Yes. The CR3 Uprate displaces higher cost generation on PEF's system, yielding substantial fuel savings to the net benefit of PEF's customers. PEF's customers will receive additional generation at a net savings, not a cost, to them. This means that no entity offering a supply-side generation alternative can likely propose a lower cost alternative for the same amount of power, and certainly not from relatively clean nuclear power. Issuing a request for supply side proposals ("RFPs"), therefore, is a meaningless exercise. The CR3 Uprate, by definition of the net fuel savings benefits driving the project, is the lowest cost supply of electricity for PEF's customers. (Portuondo, Roderick, Waters)

**ISSUE 5:** Are there any conservative measures taken by or reasonably available to PEF which might mitigate the need for the proposed CR3 Uprate?

**PEF Position:** No. Expanding conservation programs cannot displace the CR3 Uprate. The CR3 uprate will produce more incremental energy into the system than an equivalent amount of conservation can save. Put another way, the energy produced by 180 MW of CR3 will be greater than the energy saved by 180 MW of conservation. This occurs because conservation generally saves energy in proportion to the participant's load factor, or less, making the energy savings equivalent to a 60% load factor or less, while CR3 would be expected to produce energy at a 90% capacity factor. The difference in energy would

have to be made up by the remaining generating units on the system, increasing fossil-fired generation and system emissions compared to implementation of the uprate. If the comparison were to be done on equivalent energy alone, it would take more MW of conservation to save an amount of energy equivalent to the energy produced by the CR3 upgrade, which would result in higher costs to customers. (Waters)

**ISSUE 6:** Will the CR3 Uprate likely result in a lower cost supply of electricity to the utility's general body of ratepayers, as this criterion is used in Rule 25-22.082(18)?

**PEF Position:** Yes. The CR3 Uprate will result in significant fuel savings from additional nuclear power at a net benefit to customers. No entity offering a supply-side generation alternative can likely propose a lower cost alternative for the same amount of power, and certainly not from relatively clean nuclear power, rendering any RFP a meaningless exercise. No other supply-side generation alternative will likely provide additional generation at a net savings to customers, and certainly not with the added environmental and fuel diversity benefits that additional nuclear generation provides. No purpose, therefore, is served from conducting an RFP for the CR3 Uprate. (Portuondo, Roderick, Waters)

**ISSUE 7:** Will the CR3 Uprate increase the reliable supply of electricity to the utility's general body of ratepayers, as this criterion is used in Rule 25-22.082(18)?

**PEF Position:** Yes. Nuclear generation is a reliable, stable source of base load power. Nuclear fuel is generally not subject to the same supply and price volatility as generating units using other types of fossil fuels. In addition, the increased nuclear power from the CR3 Uprate will improve fuel diversity and reduce the reliance on foreign sources of fuel, which will also improve the reliability of the supply of electricity to ratepayers. (Portuondo, Roderick, Waters)

**ISSUE 8:** Will the CR3 Uprate otherwise serve the public welfare, as this criterion is used in Rule 25-22.082(18)?

**PEF Position:** Yes. The public welfare will be served by adding additional, low cost nuclear fuel generation at a net savings to customers. Increased use of nuclear fuel for power generation from the CR3 Uprate reduces the reliance on out-of-state fossil fuel resources. (Portuondo, Roderick, Waters)

**ISSUE 9:** Should the Commission grant PEF's request for an exemption from the requirements of the Bid Rule, Rule 25-22.082?

**PEF Position:** Yes. The Commission should exempt PEF from all requirements of the Bid Rule, including the cost cap portion in Rule 25-22.082(15). The CR3 Uprate satisfies all criteria for exemption from the Bid Rule, pursuant to Rule 25-22.082(18). Because the CR3 Uprate provides customers additional generation at a net savings, not a net cost, from a more environmentally beneficial source that enhances fuel diversity, no RFP is needed. No generation alternative can supply 180MW of additional power at a net

savings to customers comparable to the economic, environmental, and fuel diversity benefits provided by the CR3 Uprate. In fact, all other supply-side generation alternatives will likely provide additional power at a net cost to customers. The CR3 Uprate, therefore, satisfies all elements of the Bid Rule exemption provision and PEF's request for an exemption from all requirements of the Bid Rule should be granted. (Portuondo, Roderick, Waters)

**ISSUE 10:** Based on the resolution of the foregoing issues, should the Commission grant PEF's Petition to determine the need for the proposed CR3 Uprate?

**PEF Position:** Yes, for the foregoing reasons, as more fully developed in the testimony and exhibits filed by PEF in this proceeding, the Commission should grant PEF's petition for a determination of need for the proposed CR3 Uprate. (Portuondo, Roderick, Waters)

**2. LEGAL ISSUES.**

None at this time.

**3. POLICY ISSUES.**

None at this time.

**F. STIPULATED ISSUES.**

None at this time.

**G. PENDING MOTIONS.**

PEF does not seek action on any pending motions at this time.

**H. PEF'S REQUESTS FOR CONFIDENTIAL CLASSIFICATION.**

None at this time.

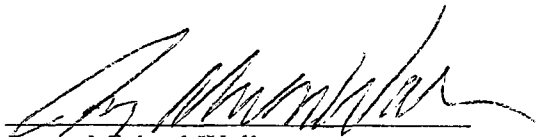
**I. REQUIREMENTS OF PREHEARING ORDER THAT CANNOT BE MET.**

Because discovery is continuing in this matter, PEF must reserve the right to use witnesses and exhibits other than or different from those identified hereinabove, in order to respond to ongoing developments.



Respectfully submitted this 18<sup>th</sup> day of December, 2006.

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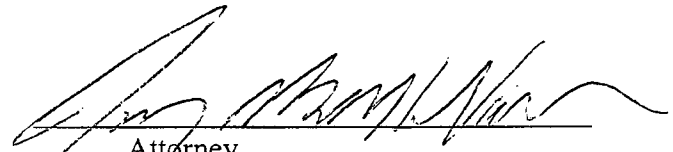


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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished to all counsel of record and interested parties as listed below via electronic mail where indicated by

\* and U.S. Mail this 18<sup>th</sup> day of December, 2006.

  
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