Diamond Williams 100009-EI

From: Costello, Jeanne [jcostello@carltonfields.com]
Sent: Friday, June 18, 2010 9:36 AM
To: Filings@psc.state.fl.us
Cc: Bryan.Anderson@fpl.com; Lisa Bennett; jbrew@bbrslaw.com; john.burnett@pgnmail.com; jessica.cano@fpl.com; gadavis@enviroattorney.com; alex.glenn@pgnmail.com; vkaufman@kagmlaw.com; paul.lewisjr@pgnmail.com; shayla.mcneill@tyndall.af.mil; jmcwhirter@mac-law.com; RMiller@pcsphosphate.com; jmoyle@kagmlaw.com; Charles Rehwinkel; ataylor@bbrslaw.com; dianne.triplett@pgnmail.com; Jamie Whitlock; Anna Williams; WOODS.MONICA; Keino Young
Subject: Emailing: Docket 100009 Response by PEF to Final 06-01-10 Audit Report.pdf

Attachments: Docket 100009 Response by PEF to Final 06-01-10 Audit Report.pdf

Docket 100009
:sponse by PEF

<<Docket 100009 Response by PEF to Final 06-01-10 Audit Report.pdf>> Docket 100009 In re: Nuclear Cost Recovery Clause

Attached for filing on behalf of Progress Energy Florida, Inc. is Progress Energy Florida, Inc.'s Response to the final audit report dated June 1, 2010.

This filing consists of two pages.

This filing is made by

Jeanne Costello on behalf of Blaise Huhta Carlton Fields, P.A.
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Progress Energy

June 18, 2010

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

In Re: Response by Progress Energy Florida, Inc. to the final audit report dated June 1, 2010; Docket No. 100009-EI regarding the 2009 Nuclear Cost Recovery Clause for the CR3 Uprate project

Dear Ms. Cole:

The purpose of my letter is to respond to the audit report filed by the Office of Auditing and Performance Analysis on June 1, 2010 regarding Progress Energy Florida, Inc.'s ("PEF") 2009 Nuclear Cost Recovery Clause filing in Docket No. 100009-EI for the CR3 Uprate project.

The audit findings that I am specifically addressing in the final audit report are the joint owner costs and the salvage value.

Audit Finding No. 2 – Joint Owner Costs:
Per the Crystal River 3 Participation Agreement ("agreement"), Capital improvement costs for Crystal River 3 (CR3) are units of property which will be shared by the Company and the joint owners, in proportion to their respective ownership interest. Joint owners are charged an allocation for these improvements. The agreement stipulates that capital improvements would exclude Common and External facilities.

The agreement defines common facilities as facilities located on the Plant Site necessary or required for licensing, construction, start-up, operation, maintenance, control, supply, or shut-down of CR3 which are not included in the Cost of Construction of CR3, and are also required and used by CR1 and CR2. Common facilities are assets that may be shared among the units in Crystal River or their personnel. They are used by CR3 and/or CR3 personnel and at least one of the other units and/or personnel at the site. Examples of common facilities outlined in the agreement include: Intake and discharge canals, access roads and water treatment facilities.

Per the agreement, external facilities are facilities necessary or required for licensing, start up, operation, maintenance, control, supply, or shut down of CR3, but which are not within the CR3 Plant Site, are not required or used by CR1 or CR2, and are not included in the Cost of Construction of CR3. External facilities are used by the CR3 nuclear staff but are not used by other units at the site. These assets are located outside of the fence. Examples of external facilities outlined in the agreement include: discharge structure and standby underground power line.

Progress Energy Florida, Inc.
P.O. Box 14042
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As the agreement stipulates, Progress Energy Florida is the sole owner of all common and external facilities and is solely responsible for their construction, operation and maintenance during the agreement. As the joint owners have no ownership interest in the common and external facilities, they are not charged an allocation for these capital additions. The joint owners are charged a monthly use charge, as defined by the agreement. This monthly use charge represents the joint owners share in the operation and maintenance expenses of the common and external facilities.

The FPSC Audit finding #2, related to joint owner costs, indicated that PEF had not charged the joint owners an allocation for administrative site facilities and "point of discharge" (POD) cooling towers and related facilities. These costs represent common and external facilities, and therefore, PEF was correct in not charging the joint owners an allocation for these capital additions, in compliance with the agreement. Once the administrative site facilities and POD cooling towers and related facilities are placed into service the retail customers will receive a credit in base rates from the joint owners through a monthly use charge.

Audit Finding No. 3 – Salvage Value:

Salvage value is a component of net book value of an existing plant asset which also includes the accumulated depreciation reserve. Therefore any amounts received for salvage assets are directly credited to the unrecovered net book value balance of the associated plant asset. The plant assets identified in the audit report that were replaced during the fall 2009 CR3 extended outage were previously included in rate base. As a result it would be inappropriate to record an adjustment through the Nuclear Cost Recovery Clause for any salvage value associated with the retired plant assets.

The methodology associated with salvage value is consistent with PEF's petition for approval of the base rate increase for costs associated with the CR3 Uprate project submitted on August 28, 2009 in Docket No. 090421. The PEF petition filed on August 28, 2009 included attachments which incorporate the annual amortization of the unrecovered net book value (including the salvage value) of the retiring plant assets into the base rate increase revenue requirements and a summary schedule of the asset retirements. Subsequently, the Florida Public Service Commission issued Order No. PSC-09-0837-PAA on December 21, 2009 approving the base rate increase for costs associated with the CR3 Uprate project which includes the annual amortization of the unrecovered net book value of the retired plant assets.

Sincerely,

Will Garrett

Controller, Progress Energy Florida, Inc.