

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Progress Energy Florida, Inc. to approve establishment of a regulatory asset and associated three-year amortization schedule for costs associated with PEF's previously approved thermal discharge compliance project.

DOCKET NO. 130091-EI
ORDER NO. PSC-13-0381-PAA-EI
ISSUED: August 15, 2013

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING
ESTABLISHMENT OF A REGULATORY ASSET
AND
ASSOCIATED AMORTIZATION SCHEDULE

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.

Case Background

On April 1, 2013, Progress Energy Florida, Inc. filed a petition in Docket No. 130007-EI seeking approval of its environmental cost recovery final 2012 true-up, approval to establish a regulatory asset and associated amortization schedule, and approval to modify the scope of an existing environmental program. (Petition) On April 29, 2013, Docket No. 130091-EI was opened to process the request for establishment of a regulatory asset and associated amortization schedule. Relevant parts of the Petition and testimony from the environmental cost recovery docket are the basis for Docket No. 130091-EI. On May 6, 2013, Progress Energy Florida, Inc. filed a letter in Docket Nos. 130007-EI and 130091-EI stating its name had changed to Duke Energy Florida, Inc. d/b/a Duke Energy (DEF or Company).

DEF's request for a regulatory asset and associated amortization schedule stems from a project at the Crystal River site intended to bring Crystal River Units 1, 2, and 3 (CR1, CR2, and CR3) into compliance with thermal discharge limits for water used for cooling. The project provided additional cooling in the form of an additional cooling tower for these units and was approved by Order No. PSC-08-0775-FOF-EI, issued November 24, 2008 in Docket No. 080007-EI.¹ On February 5, 2013, DEF announced that it will retire CR3, making the thermal discharge compliance project no longer necessary. By its Petition, DEF proposes to treat the cost of the project, for CR1 and CR2, as a regulatory asset to be amortized and recovered over three years in the environmental cost recovery clause (ECRC).²

We have jurisdiction over this subject matter pursuant to the provisions of Section 366.8255, Florida Statutes (F.S.).

Decision

By Order No. PSC-07-0722-FOF-EI, we approved DEF's request to recover the cost of leased modular cooling towers for CR1 and CR2 through the ECRC.³ The additional cooling allowed DEF to maintain compliance with its industrial wastewater discharge permit and was necessary due to higher Gulf of Mexico inlet temperatures. The additional cooling prevented derates, or reductions of capacity, for these coal units.

In the 2008 ECRC proceeding, DEF proposed building a cooling tower and expanding the number of helper cooling tower cells as a permanent solution to the need for additional cooling. This proposal entailed replacement of the leased modular cooling towers as well as handling the additional cooling needs brought on by the CR3 uprate. By Order No. PSC-08-0775-FOF-EI, we approved DEF's request to implement the thermal discharge compliance project.⁴

The project was originally scheduled to be completed in 2011, ahead of the completion of the final phase of the CR3 uprate. After the 2009 delamination at CR3, the schedule was revised to maintain the ability to bring the tower into service in coordination with the CR3 uprate while minimizing additional capital spending.

On February 5, 2013, DEF announced that it would retire CR3. This retirement reduces future cooling needs and makes the thermal discharge compliance project no longer necessary. In the instant docket, DEF asks that we allow the Company to create a regulatory asset for the cost of the project that has already been incurred, amortize the cost over three years, and earn a

¹ Order No. PSC-08-0775-FOF-EI, issued November 24, 2008 in Docket No. 080007-EI, In re: Environmental cost recovery clause.

² The scope of this Order does not extend to any issues related to the decision to retire CR3; rather, this Order takes as a given that CR3 is retiring and addresses the regulatory treatment of costs for a thermal discharge compliance project that is no longer needed based on that retirement.

³ Order No. PSC-07-0722-FOF-EI, issued September 5, 2007 in Docket No. 060162-EI, In re: Petition by Progress Energy Florida, Inc. for approval to recover modular cooling tower costs through environmental cost recovery clause.

⁴ Order No. PSC-08-0775-FOF-EI, issued November 24, 2008 in Docket No. 080007-EI, In re: Environmental cost recovery clause.

return on the unamortized balance. As of December 31, 2012, the unrecovered project cost attributable to CR1 and CR2 is approximately \$18.1 million. DEF allocated this cost based on the ratio of heat removal attributable to CR1 and CR2 and to the CR3 uprate – 64 percent for CR1 and CR2 and 36 percent for the CR3 uprate. DEF proposes recovering the cost of the CR1 and CR2 portion pursuant to the ECRC and the CR3 portion pursuant to the Nuclear Cost Recovery Clause (NCRC). This Order addresses only the CR1 and CR2 portion.

The thermal discharge compliance project originally was essential because it was a permanent solution to the additional cooling needs for CR1, CR2, and CR3. It would have prevented derates at CR1 and CR2 and it would have handled the additional cooling needs caused by the CR3 uprate. With the retirement of CR3, future cooling needs are reduced, making the project no longer necessary. Ending the project will not cause derates at CR1 and CR2.

Since the thermal discharge compliance project is no longer necessary, DEF requests our approval to create a regulatory asset for the cost of the project.⁵ Consistent with the rationale of our decision to amortize DEF's cost of nitrogen oxide (NOx) emission allowances (thought to be unusable as a result of regulatory developments), DEF proposes to amortize the asset over three years.⁶ Based on the Petition, the three year amortization would begin on January 1, 2013.

Upon review, we shall approve DEF's request to establish a regulatory asset for the thermal discharge compliance project. DEF received our approval for the project and was prudent in starting the project. Due to changed circumstances – the retirement of CR3, DEF was prudent in stopping the project because the additional cooling is no longer necessary. DEF indicates that some components of the project may have salvage value and that the amount of any salvage value realized will reduce the regulatory asset.

The approval to record the regulatory asset for accounting purposes does not limit our ability to review the amounts for reasonableness in the ECRC. Project costs included in the ECRC are audited by our staff and can be reviewed as part of the annual ECRC proceeding.

DEF estimates the effect of the amortization and return on the regulatory asset on the monthly 1,000 kWh residential bill will be \$0.35 for 2014 and \$0.15 for 2015. This is based on

⁵ Regulatory assets and liabilities are defined as follows:

Regulatory Assets and Liabilities are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains, or losses that would have been included in net income determination in one period under the general requirements of the Uniform System of Accounts but for it being probable:

- A. that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or
- B. in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required. Definition 31, Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of The Federal Power Act., 18 CFR Part 101 (4-1-12 Edition).

⁶ See Order No. PSC-11-0553-FOF-EI, issued December 7, 2011 in Docket No. 110007-EI, In re: Environmental cost recovery clause.

the amortization beginning in 2013 and no change in 2013 rates. Rates for 2014 would include any over/under recovery accrued in 2013.

Upon review, we find that the three year amortization schedule is appropriate. DEF will earn a return on the unamortized balance of the regulatory asset. We note that cumulative revenue requirement based upon a three year amortization will be less than for longer periods because of the accrual of interest. While we have used longer amortization periods, e.g., four years for rate case expense, we find that this regulatory asset is more similar to the NOx allowances that were allowed to be amortized over three years. The three year amortization period only applies to the ECRC part of the project. The NCRC portion, which will be addressed in Docket No. 130009-EI, is subject to Rule 25-6.0425(6)(a), Florida Administrative Code, which may require a different amortization period.⁷

In conclusion, we find that DEF was prudent in implementing the thermal discharge compliance project and is prudent in stopping the project given that the retirement of CR3 makes the project no longer necessary. Therefore, we shall approve DEF's request for the establishment of a regulatory asset and associated three year amortization schedule for the CR1 and CR2 portion of the thermal discharge compliance project.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that, as set forth in the body of this Order, Duke Energy Florida, Inc's Petition for the establishment of a regulatory asset and associated three year amortization schedule for its Crystal River thermal discharge compliance project is approved. 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, F.A.C., is received by the Office of 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

⁷ Rule 25-6.0423(6)(a), F.A.C., states: "The utility shall recover such cost through the Capacity Cost Recovery Clause over a period during which costs were incurred or 5 years, whichever is greater."

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ORDERED that, if no timely protest is filed and this Order becomes final, then this docket shall be closed upon the issuance of a Consummating Order.

By ORDER of the Florida Public Service Commission this 15th day of August, 2013.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

CWM

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 September 5, 2013.

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.