



Public Service Commission

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

DATE: JULY 12, 2001

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (E. DRAPER, SPRINGER, WHEELER) *EJD DW [initials] [initials] [initials]*
DIVISION OF LEGAL SERVICES (KEATING) *RUE Forwick*

RE: DOCKET NO. 010373-EI - PETITION FOR APPROVAL TO PROVIDE OPTIONAL PREMIER POWER SERVICE RIDER, RATE SCHEDULE PPS-1, FOR GENERAL SERVICE CUSTOMERS BY FLORIDA POWER CORPORATION.

AGENDA: 7/24/01 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: 5/29/01, 8-MONTH EFFECTIVE DATE: 11/30/01

SPECIAL INSTRUCTIONS: 60-DAY SUSPENSION DATE WAIVED BY FLORIDA POWER CORPORATION

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010373.RCM

CASE BACKGROUND

On March 29, 2001, Florida Power Corporation (FPC) filed a petition for approval of an optional Premier Power Service Rider (rider), rate schedule PPS-1. On May 8, 2001, FPC voluntarily waived the 60-day file and suspend period set forth in Section 366.06(3), Florida Statutes.

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

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

ISSUE 1: Should the Commission approve FPC's proposed PPS-1 rate?

RECOMMENDATION: Yes. The proposed PPS-1 rate should be approved.
[E. DRAPER]

STAFF ANALYSIS: Customers requiring on-site generators to serve as a back-up electric supply currently have the option of buying a generator or leasing a generator from an equipment vendor. On March 29, 2001, FPC filed a petition for an optional rider that would allow FPC to install a minimum of 200 kW of generation at the premises of firm commercial and industrial customers. FPC will own, maintain, and operate the generators for a fixed monthly charge. The rider is designed for customers who require improved service reliability but wish to avoid ownership and maintenance of back-up generation. Examples of such customers include hospitals, municipal water and waste-water facilities, and financial institutions.

Customers who request service under the rider will be required to execute a Premier Power Service Contract (contract) with a minimum term of 10 years. The contract will contain a customer-specific monthly charge which reflects the total cost incurred by FPC to provide the generator. Specifically, the charge reflects FPC's installed cost of the generator plus expenses. Expenses include O&M expenses, fuel expenses, and depreciation expenses. These costs are levelized to provide for equal monthly payments over the initial 10-year term of the contract.

The cost of fuel in the monthly charge represents the cost to run the generator 100 hours per year, which represents the annual average number of hours the generator is expected to operate. This assumption is partially based on experience gained by Carolina Power & Light Company (CPL), who offers a similar rider.

Staff has reviewed sample workpapers provided by FPC that demonstrate the calculation of the customer-specific charge. Inputs such as equipment costs, installation costs, and contract term will vary from customer to customer. Other inputs such as the weighted average cost of capital, depreciation rates, and tax rates will be adjusted annually and/or when the Commission authorizes a change. This ensures that the monthly charge for the generator reflects FPC's actual costs at the time the contract is signed. Once a contract is signed, the monthly payment is fixed for the entire term of the contract.

The generators will serve primarily as an alternate supply of electricity to customers in the event that the normal electric supply is interrupted. In addition, FPC will have the ability to install remote dispatch controls on selected generators to provide additional capacity to FPC's system during periods of capacity shortage. The customer, however, will always have first call on the generator for back-up purposes. FPC states that it will evaluate each generator to determine whether to install remote dispatch equipment based on economic and safety factors.

FPC estimates the cost of the remote dispatch equipment to be \$35,000 per installation. The cost of the dispatch equipment represents a cost to the general body of ratepayers since it will not be included in the monthly charge to the customers receiving service under the rider. However, the general body of ratepayers will benefit from FPC's ability to dispatch the generators during periods of capacity shortage.

An additional benefit to the general body of ratepayers occurs because they incur no fuel costs for the power provided from the generators during periods of capacity shortage. The cost of the fuel for 100 run hours per year is recovered through the monthly charge from the customer taking service under the rider. In the event that FPC dispatches a generator in excess of the 100 hours, FPC states that it will not recover the cost of additional fuel through the Fuel and Purchased Power Cost Recovery clause (fuel clause). Any additional fuel purchased for dispatch will be booked to FERC expense account 587 (customer installation expense) and will not impact other ratepayers between rate cases.

FPC proposes a 5-year experimental period during which customers can request service under the rider. FPC will submit annual reports to the Commission regarding participation levels and the amount of generation installed. At least 60 days prior to the expiration of the rider, FPC will submit a petition to the Commission to extend or modify the rider.

Staff believes that the proposed PPS-1 rider should be approved. The rider provides an optional service to customers who request a higher degree of reliability. Since customers requesting service under the rider will be responsible for the total cost of the back-up generation, the general body of ratepayers will be protected. This is appropriate since FPC will be competing with other providers of the same type of service.

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ISSUE 2: What is the appropriate effective date for FPC's proposed PPS-1 tariff?

RECOMMENDATION: The appropriate effective date for FPC's proposed PPS-1 tariff is July 24, 2001. [E. DRAPER]

STAFF ANALYSIS: If the Commission approves FPC's proposed PPS-1 tariff at its July 24, 2001, Agenda Conference, the tariff should become effective on that date.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no protest is filed within 21 days of the issuance of the order, this docket should be closed upon the issuance of a Consummating Order. [C. KEATING]

STAFF ANALYSIS: If a protest is filed within 21 days of the Commission order approving this tariff, the tariff should remain in effect pending resolution of the protest, with any charges held subject to refund pending resolution of the protest. If no protest is filed, this docket should be closed upon the issuance of a Consummating Order.