



ORIGINAL

JAMES A. MCGEE  
ASSOCIATE GENERAL COUNSEL  
PROGRESS ENERGY SERVICE COMPANY, LLC

October 18, 2004

HAND DELIVERY

Ms. Blanca S. Bayó, Director  
Division of the Commission Clerk  
and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

RECEIVED-FPSC  
04 OCT 18 PM 3:33  
COMMISSION  
CLERK

Re: Docket No. 040001-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket on behalf of Progress Energy Florida, Inc., are an original and fifteen copies of its Prehearing Statement.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3½ inch diskette containing the above-referenced document in Word format. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

JAM/scc  
Enclosures

cc: Parties of record

- CMP \_\_\_\_\_
- COM 5
- CTR \_\_\_\_\_
- ECR \_\_\_\_\_
- GCL \_\_\_\_\_
- OPC \_\_\_\_\_
- MMS \_\_\_\_\_
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DOCUMENT NUMBER-DATE

11207 OCT 18 04

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Fuel and Purchased Power Cost  
Recovery Clause and Generating  
Performance Incentive Factor.

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Docket No. 040001-EI  
Submitted for filing:  
October 18, 2004

**PREHEARING STATEMENT OF  
PROGRESS ENERGY FLORIDA**

Progress Energy Florida (PEF), pursuant to Rule 25-22.038, Florida Administrative Code, hereby submits its Prehearing Statement with respect to its levelized fuel and capacity cost recovery factors and its Generating Performance Incentive Factor (GPIF) for the period of January through December 2005, and states as follows:

A. APPEARANCES

BONNIE E. DAVIS, 106 East College Avenue, Suite 800, Tallahassee, FL 32301 and JAMES A. MCGEE, Post Office Box 14042, St. Petersburg, FL 33733.

On behalf of Progress Energy Florida

B. WITNESSES

<u>Witness - Direct</u>	<u>Subject Matter</u>	<u>Issues</u>
Javier Portuondo	Final and Estimated True-up	1- 3, 24-26
Javier Portuondo	Fuel and Capacity Cost Projections	4-12, 13A, 13B, 13I, 13J, 27-30A
Pamela R. Murphy	Fuel Procurement Hedging Programs	
Samuel S. Waters	Shady Hills Tolling Agreement and Southern UPS Agreement	13C-13F
Michael F. Jacob	GPIF: Reward/Penalty and Targets/Ranges	18, 19

Witness - Rebuttal

## C. EXHIBITS

<u>Exhibit No.</u>	<u>Witness</u>	<u>Description</u>
<u>(JP-1T)</u>	Portuondo	True-up Variance Analysis, Capacity Cost Recovery True-up, Tiger Bay Amortization, and Schedules A1 through A9 (December 2003).
<u>(JP-1R)</u>	Portuondo	Reprojection Assumptions (Parts A-C), Capacity Cost Recovery Reprojections (Part D), and Schedules A1 through A9 (July 2004).
<u>(JP-1P)</u>	Portuondo	Forecast Assumptions (Parts A-C), Capacity Cost Recovery Factors (Part D), Hines 2 Depreciation & Return Calculations (Part E), and Schedules E1 through E10 and H1 (2005).
<u>(PRM-1T)</u>	Murphy	2003 Risk Management Plan Results Summary, and Hedging Information Summary.
<u>(PRM-1P)</u>	Murphy	2005 Risk Management Plan.
<u>(MFJ-1T)</u>	Jacob	GPIF Reward/Penalty Schedules.
<u>(MFJ-1P)</u>	Jacob	GPIF Targets/Ranges Schedules.
<u>(SSW-1)</u>	Waters	Shady Hills Tolling Agreement
<u>(SSW-2)</u>	Waters	Southern UPS Letter of Intent
<u>(SSW-3)</u>	Waters	Shady Hill Cost/Benefit Summary
<u>(SSW-4)</u>	Waters	Southern UPS Cost/Benefit Summary

## D. STATEMENT OF BASIC POSITION

None necessary.

## E. STATEMENT OF ISSUES AND POSITIONS

(Note: The issue numbering sequence below corresponds to the issue numbers in Staff's Preliminary List of Issues.)

### Generic Fuel Adjustment Issues

1. ISSUE: What are the appropriate final fuel adjustment true-up amounts for the period January through December 2003?  
PEF: \$801,428 under-recovery. (Portuondo)
  
2. ISSUE: What are the appropriate estimated fuel adjustment true-up amounts for the period January through December 2004?  
PEF: \$137,586,107 under-recovery. (Portuondo)
  
3. ISSUE: What are the appropriate total fuel adjustment true-up amounts to be collected from January through December 2005?  
PEF: \$59,230,265 under-recovery, based on PEF's proposal to defer \$79,157,270, the remainder of the total December 2004 under-recovery balance of \$138,387,535, for recovery until 2006. (Portuondo)
  
4. ISSUE: What is the appropriate revenue tax factor to be applied in calculating each investor owned electric utility's levelized fuel factor for the projection period of January through December 2005?  
PEF: 1.00072 (Portuondo)
  
5. ISSUE: What are the appropriate projected net fuel and purchased power cost recovery amounts to be included in the recovery factor for the period January through December 2005?  
PEF: \$1,558,821,632 (Portuondo)
  
6. ISSUE: What is the appropriate levelized fuel cost recovery factor for the period of January through December 2005?  
PEF: 3.869 cents per kWh (adjusted for jurisdictional losses). (Portuondo)

7. ISSUE: What are the appropriate fuel recovery line loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class/delivery voltage level group?

<u>PEF:</u>			
	Delivery		Line Loss
<u>Group</u>	<u>Voltage Level</u>		<u>Multiplier</u>
A.	Transmission		0.9800
B.	Distribution Primary		0.9900
C.	Distribution Secondary		1.0000
D.	Lighting Service		1.0000
(Portuondo)			

8. ISSUE: What are the appropriate fuel cost recovery factors for each rate class/delivery voltage level class adjusted for line losses?

<u>PEF:</u>		<u>Fuel Cost Factors (cents/kWh)</u>		
	Delivery		<u>Time Of Use</u>	
<u>Group</u>	<u>Voltage Level</u>	<u>Standard</u>	<u>On-Peak</u>	<u>Off-Peak</u>
A.	Transmission	3.798	4.892	3.331
B.	Distribution Primary	3.836	4.941	3.364
C.	Distribution Secondary	3.875	4.991	3.398
D.	Lighting Service	3.696		
(Portuondo)				

9. ISSUE: What should be the effective date of the fuel adjustment charge and capacity cost recovery charge for billing purposes?

PEF: The new factors should be effective beginning with the first billing cycle for January 2005, and thereafter through the last billing cycle for December 2005. The first billing cycle may start before January 1, 2005, and the last billing cycle may end after December 31, 2005, so long as each customer is billed for twelve months regardless of when the factors became effective.  
(Portuondo)

10. ISSUE: What is the appropriate actual benchmark level for calendar year 2004 for gains on non-separated wholesale energy sales eligible for a shareholder incentive as set forth by Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000, for each investor-owned electric utility?

PEF: \$8,585,687 (Portuondo)

11. ISSUE: What is the appropriate estimated benchmark level for calendar year 2005 for gains on non-separated wholesale energy sales eligible for a shareholder incentive as set forth by Order No. PSC-00-1744-PAA-EI, in

Docket No. 991779-EI, issued September 26, 2000, for each investor-owned electric utility?

PEF: \$7,888,336 (Portuondo)

12. ISSUE: Should each investor-owned utility be required to report its capacity charges and costs, estimated and actual, for wholesale capacity sales and purchases in a schedule similar in format to Schedules E-6, A-6, E-7, A-7, E-8, A-8, E-9, and A-9?

PEF: PEF currently provides in its True-Up filing an actual capacity schedule showing monthly payments by contract. Since there is very little volatility in the monthly capacity payments, PEF does not believe that providing this actual information on a monthly basis is necessary. However, PEF believes the estimated capacity payments currently shown as monthly totals in its Projection filing could be expanded to show payments by contract. (Portuondo)

#### Company-Specific Fuel Adjustment Issues

- 13A. ISSUE: Has Progress Energy Florida confirmed the validity of the methodology used to determine the equity component of Progress Fuels Corporation's capital structure for calendar year 2003?

PEF: Yes. PEF's Audit Services Department has reviewed the analysis performed by Progress Fuels Corporation and has confirmed the appropriateness of the "short cut" method previously approved by the Commission. (Portuondo)

- 13B. ISSUE: Has Progress Energy Florida properly calculated the 2003 price for waterborne transportation services provided by Progress Fuels Corporation?

PEF: Yes. The waterborne transportation calculation has been properly made in accordance with the methodology consistently used for previous calculations that have been approved by the Commission. (Portuondo)

- 13C. ISSUE: Should the Commission defer all issues related to the purchased power agreements between Progress Energy Florida and Shady Hills Power Company, LLC and Progress Energy Florida and Southern Company to a separate docket?

PEF: No. The two agreements are ripe for consideration by the Commission. Delay would only serve to jeopardize the availability of the benefits these agreements will provide to PEF and its customers. (Waters)

13D. ISSUE: If the Commission does not defer all issues related to the purchased power agreements to a separate docket, should the Commission require Progress Energy Florida to explore alternatives in the wholesale market prior to seeking approval of the purchased power agreements?



PEF: No. Conducting an RFP process as suggested by the FIPUG witnesses would not be appropriate for PEF's proposed extension of the Southern UPS Agreement and would seriously risk the availability of this beneficial purchase to PEF and its customers. (Waters)

13E. ISSUE: If the Commission does not defer all issues related to the purchased power agreements to a separate docket, should the Commission approve the tolling agreement between Progress Energy Florida and Shady Hills Power Company, LLC for cost recovery purposes?

PEF: Yes, for the reasons described by PEF witness Waters.

13F. ISSUE: If the Commission does not defer all issues related to the purchased power agreements to a separate docket, should the Commission approve the Unit Power Sales (UPS) agreement between Progress Energy Florida and Southern Company for cost recovery purposes?

PEF: Yes, for the reasons described by PEF witness Waters.

13G. ISSUE: Pursuant to Order No. PSC-93-1331-FOF-EI, in Docket No. 930001-EI, issued September 13, 1993, should the Commission make an adjustment to Progress Energy Florida's 2002 and 2003 waterborne coal transportation costs to account for upriver costs from mine to barge for coal commodity contracts which are quoted FOB Barge?

PEF: No such adjustment is necessary or appropriate. PEF continues to meet with Staff and the parties in an effort resolve this issue.

13H. ISSUE: Pursuant to Order No. PSC-94-0390-FOF-EI, in Docket No. 940001-EI, issued April 4, 1994, should the Commission make an adjustment to Progress Energy Florida's 2001-2003 waterborne coal transportation costs to account for transloading costs for coal commodity contracts which are quoted FOB Barge?

PEF: No such adjustment is necessary or appropriate. PEF continues to meet with Staff and the parties in an effort resolve this issue.

13I. ISSUE: Pursuant to Order No. PSC-04-0713-AS-EI, in Docket No. 031057-EI, issued July 20, 2004, has Progress Energy Florida made the appropriate adjustments to its 2004 and 2005 waterborne coal transportation costs for recovery purposes?

PEF: Yes. (Portuondo)

- 13J. ISSUE: Has Progress Energy Florida provided sufficient evidence of fuel savings to justify charging depreciation and a return in the amount of approximately \$37 million related to Hines Unit 2?

PEF: Yes. Pursuant to the Stipulation and Settlement approved by the Commission in Order No. PSC-02-0655-AS-EI, issued May 14, 2002 in Docket No. 000824-EI, the amount of depreciation and return to be recovered by PEF for Hines 2 will be based on the unit's actual fuel savings through the end of 2005, which cannot be determined until actual results become available in 2006. Current estimates of fuel savings from Hines 2 in 2005 are approximately \$40 million. (Portuondo)

#### **Generic Generating Performance Incentive Factor Issues**

18. ISSUE: What is the appropriate GPIF reward or penalty for performance achieved during the period of January through December 2003?

PEF: \$2,139,695 reward. (Jacob)

19. ISSUE: What should the GPIF targets/ranges be for the period of January through December, 2005?

PEF: See Attachment A (page 3 of Exhibit MFJ-1P). (Jacob)

#### **Generic Capacity Cost Recovery Issues**

24. ISSUE: What is the appropriate final capacity cost recovery true-up amount for the period of January through December 2003?

PEF: \$6,086,681 over-recovery. (Portuondo)

25. ISSUE: What is the appropriate estimated capacity cost recovery true-up amount for the period of January through December 2004?

PEF: \$5,271,518 over-recovery. (Portuondo)

26. ISSUE: What is the appropriate total capacity cost recovery true-up amount to be refunded during the period January through December 2005?

PEF: \$11,358,199 over-recovery. (Portuondo)

27. ISSUE: What is the appropriate projected net purchase power capacity cost recovery amount to be included in the recovery factor for the period January through December 2005?

PEF: \$311,001,772. (Portuondo)

28. ISSUE: What are the appropriate jurisdictional separation factors to be applied to determine the capacity costs to be recovered during the period January through December 2005?

PEF: Base - 95.957%, Intermediate - 86.574%, Peaking - 74.562%.  
(Portuondo)

29. ISSUE: What are the projected capacity cost recovery factors for the period January through December 2005?

<u>PEF</u> :	<u>Rate Class</u>	<u>CCR Factor</u>
	Residential	.875 cents/kWh
	General Service Non-Demand	.793 cents/kWh
	@ Primary Voltage	.785 cents/kWh
	@ Transmission Voltage	.777 cents/kWh
	General Service 100% Load Factor	.507 cents/kWh
	General Service Demand	.697 cents/kWh
	@ Primary Voltage	.690 cents/kWh
	@ Transmission Voltage	.683 cents/kWh
	Curtable	.630 cents/kWh
	@ Primary Voltage	.624 cents/kWh
	@ Transmission Voltage	.617 cents/kWh
	Interruptible	.534 cents/kWh
	@ Primary Voltage	.529 cents/kWh
	@ Transmission Voltage	.524 cents/kWh
	Lighting	.156 cents/kWh

(Portuondo)

### Company-Specific Capacity Cost Recovery Issues

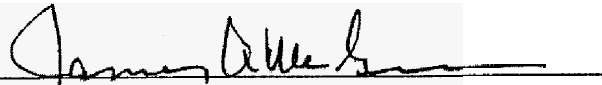
30A. ISSUE: Are Progress Energy Florida's actual and projected expenses for 2003 through 2005 for its post-September 11, 2001, security measures reasonable for cost recovery purposes?

PEF: Yes, Progress Energy's post-9/11 incremental security costs for 2003 through 2005 have been determined using the appropriate baseline O&M expenses and calculation methodology. (Portuondo)

F. STIPULATED ISSUES: None at this time.

G. PENDING MOTIONS: None.

Respectfully submitted,



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Attorney for  
PROGRESS ENERGY FLORIDA, INC.

**ATTACHMENT A**

**GPIF TARGETS AND RANGES**

## GPIF TARGET AND RANGE SUMMARY

Progress Energy Florida

Period of: January 2005 - December 2005

Plant/Unit	Weighting Factor (%)	EAF Target (%)	EAF RANGE		Max. Fuel Savings (\$000)	Max. Fuel Loss (\$000)
			Max. (%)	Min. (%)		
Anclole 1	1.52	94.72	97.21	89.56	1,048	(1,341)
Anclole 2	3.15	94.87	97.28	89.91	2,164	(2,883)
Crystal River 1	5.26	92.42	95.97	85.21	3,618	(1,591)
Crystal River 2	16.79	85.71	92.26	73.18	11,540	(8,324)
Crystal River 3	2.14	90.52	91.38	88.73	1,474	(1,286)
Crystal River 4	10.56	89.58	91.78	85.04	7,262	(3,395)
Crystal River 5	7.57	90.14	91.82	86.67	5,205	(1,599)
Hines 1	0.75	88.98	90.57	85.66	513	(1,299)
Tiger Bay	0.52	91.36	93.62	86.73	359	(176)
GPIF System	48.27				33,183	(21,894)

Plant/Unit	Weighting Factor (%)	ANOHR Target		ANOHR RANGE		Max. Fuel Savings (\$000)	Max. Fuel Loss (\$000)
		(BTU/KWH)	NOF	Min. (BTU/KWH)	Max. (BTU/KWH)		
Anclole 1	9.05	10117	56.0	9632	10602	6,221	(6,221)
Anclole 2	5.37	10128	57.0	9833	10424	3,689	(3,689)
Crystal River 1	3.54	9921	82.9	9576	10267	2,432	(2,432)
Crystal River 2	5.72	9662	85.9	9222	10101	3,929	(3,929)
Crystal River 3	10.52	10298	100.1	10109	10488	7,235	(7,235)
Crystal River 4	3.22	9342	96.0	9177	9508	2,215	(2,215)
Crystal River 5	3.47	9390	95.1	9209	9571	2,384	(2,384)
Hines 1	7.10	7317	81.6	7092	7541	4,878	(4,878)
Tiger Bay	3.75	7903	79.3	7638	8168	2,582	(2,582)
GPIF System	51.73					35,566	(35,566)

Issued by: Progress Energy Florida

Filed:

Suspended:

Effective:

Docket No.:

Order No.:

PROGRESS ENERGY FLORIDA

DOCKET NO. 040001-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the Prehearing Statement on behalf of Progress Energy Florida has been furnished to the following individuals by regular U.S. Mail the 18<sup>th</sup> day of October, 2004.

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