Hopping Green & Sams

Attorneys and Counselors

Writer's Direct Dial Number
(850) 425-2359

May 23, 2005

BY HAND DELIVERY

Blanca Bayó
Director, Office of the Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 041393-EI

Dear Ms. Bayó:

Enclosed for filing are the original and fifteen copies of Progress Energy Florida's Prehearing Statement in the above docket. I also have enclosed a diskette containing the document in Word format.

By copy of this letter, I am providing a copy of the document to the persons listed on the attached certificate of service by e-mail and U.S. Mail.

Please stamp and return the enclosed extra copy of this filing. If you have any questions regarding this filing, please give me a call at 425-2359.

Very truly yours,

Gary V. Perko

GVP/mee
Enclosures
cc: certificate of service

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of Progress Energy Florida's Prehearing Statement have been provided by e-mail and by U.S. Mail, postage pre-paid, on May 23rd, 2005, to the following:

James M. Bushee, Esq.
Daniel E. Frank, Esq.
Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, NW
Washington DC 20004-2415
Fax: (202) 637-3593

Richard A. Zambo, Esq.
Richard A. Zambo, P.A.
2336 S.E. Ocean Boulevard, # 309
Stuart, Florida 34996
Fax: (772) 232-0205

C. Everett Boyd, Esq.
Sutherland Asbill & Brennan LLP
2282 Killearn Center Boulevard
Tallahassee, FL 32309-3576
Fax: (850) 894-0030

Adrienne E. Vining, Esq.
Senior Counsel
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Karin S. Torain, Esq.
PCS Administration (USA), Inc.
Suite 400
Skokie Boulevard
Northbrook, IL 60062
Fax: (847) 849-4663

R. Alexander Glenn, Esq.
Deputy General Counsel
Progress Energy Service Company, L.L.C.
100 Central Avenue, Suite 1D
St. Petersburg, FL 33701-3324

Attorney

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of two unit power sales agreements with Southern Company Services, Inc. for purposes of cost recovery through capacity and fuel cost recovery clauses, by Progress Energy Florida, Inc.	DOCKET NO. 041393-EI SERVED: May 23, 2005

PROGRESS ENERGY FLORIDA'S
PREHEARING STATEMENT

Pursuant to the requirements of the Order on Procedure (Order No. PSC-05-0432-PCO-EI), Progress Energy Florida ("PEF") hereby submits its Prehearing Statement.

A. Known Witnesses

PEF will offer the direct testimony of Samuel S. Waters filed on April 15, 2005 (which includes confidential information), the supplemental testimony of Mr. Waters filed on May 10, 005, and the rebuttal testimony of Mr. Waters filed on May 20, 2005. Mr. Waters will testify regarding Issues 1-7.

B. Known Exhibits **PEF intends to sponsor the following pre-filed exhibits:**

Exhibit	**Witness**	
SSW-1 (confidential)	Waters	
SSW-2 (confidential)	Waters	Franklin Unit No. 1
SSW-3 (confidential)	Waters	Summary of Costs and Benefits of Units Power Sales Agreement with Southern Company
SSW-4R	Waters	Savings of UPS contracts with Economy Purchase Savings (revised May 10, 2005)
SSW-5	Waters	Comparison of Base & Southern UPS Resource Plans
SSW-6 (confidential)	Waters	Total Generation Fixed Cost Comparison

In addition, PEF intends to offer the following:
Responses of White Springs Agricultural Chemicals, Inc. d/b/a PCS Phosphate – White Springs ("White Springs") to PEF's First Set of Interrogatories (Nos. 1-2); and
Transcript of Deposition of Maurice Brubaker taken on 5/18/05

C. Basic Position

The Commission should find that PEF's entry into the Franklin and Scherer Unit Power Sales (UPS) Agreements between PEF and Southern Company Services (SCS) is reasonable and prudent action to maintain its 20% reserve margin. Accordingly, the Commission also should approve cost recovery of the energy and capacity costs associated with the agreement when the actual expenses are presented in the annual Capacity and Fuel Recovery Clause proceedings.

Under the new UPS agreements, PEF Energy will purchase a total of approximately 424 megawatts (MW), with approximately 74 MW to be provided by the Scherer Unit 3, a coal-fired unit owned by Georgia Power and Gulf Power, and approximately 350 MW from Georgia Power's Franklin 1 combined cycle unit. While smaller in scope, these agreements are substantively similar to the UPS agreements between FPL and SCS that this Commission recently approved in Order No. PSC-05-0084-FOF-EI. Like the FPL agreements, the PEF agreements would replace existing agreements that have substantially benefited the ratepayers. Like FPL, PEF will retain some, though not all, of the coal-fired generation included in the existing agreements (roughly 17% for both PEF and FPL). The PEF agreements also will provide substantial strategic benefits including: (a) the ability to maintain transmission access to the southeastern region and thereby maintain access to economy energy purchases and sales outside of Florida; (b) fuel diversity by providing more coal capacity than PEF's self-build option; (c) planning flexibility by deferring the need for two combined cycle units and thereby providing PEF additional time to study the cost-effectiveness and feasibility of coal generation; and (d) increased reliability by adding an outside source for natural gas transportation and providing access to the Southern system and beyond. Based on a 45-year analysis, the contracts are projected to result in a net cost to customers between \$5 million and \$11 million, CPVRR. However, the agreements are projected to provide cost *savings* of approximately \$44 million over the five year of term of the agreements, when PEF's resource plan is more certain.

PEF has provided ample evidence regarding economic impact of the new UPS agreements and the benefits they will bring to PEF's ratepayers. Therefore, the Commission has sufficient information to find that PEF's entry into the UPS agreements is reasonable and prudent action to maintain its 20% reserve margin, and to approve cost recovery of the energy and capacity costs associated with the agreements when the actual costs are submitted for recovery in the annual Capacity and Fuel Cost Recovery Clause proceedings.

D.-F. Issues

PEF's position on the issues identified by the parties are as follows:

Issue 1: Whether PEF adequately considered alternatives to the proposed UPS agreements?

PEF: Yes. Despite intervener's claim that PEF should have issued an RFP prior to entering the UPS agreements, there is no such statutory or regulatory requirement. In any event, intervener has not identified a single alternative that may be available, nor has it demonstrated that additional analysis will produce a different result. PEF's marketers constantly test the market for appropriate power purchases. PEF also analyzed the feasibility of coal-fired generation and would not expect to see any coal capacity offered because a new coal unit takes roughly 8 years to bring into service and the need the UPS agreements will meet is only 5 years out. For the combined cycle portion of the agreements, PEF compared the Franklin unit to offers received in PEF's most recent RFP solicitation for Hines 4. The results demonstrate that the capacity prices for the new UPS agreements are consistent with capacity prices offered in response to the Hines 4 RFP. If anything, one would expect to see new bids that are even higher in cost because of recent increases in materials costs.

Issue 2: Whether PEF's cost-effectiveness analysis is reasonable and supported by the evidence?

PEF: Yes. PEF performed two cost-effectiveness analyses using the same industry standard models and assumptions typically used for developing PEF's ten year site plans and for conducting other system planning analyses. The initial cost-effectiveness analysis was based on a methodology that relied upon the use of economic carrying charges, also known to this Commission as a value-of-deferral analysis. This analysis calculates the costs and benefits associated with deferring or advancing generating units over their full expected life, but does not allow for the quantification of actual benefits or savings in any specific year of the analysis. This method quantified NPV costs of $5 million to $11 million over the 45 year analysis.

To identify the net cost or savings during the five-year term of the UPS Agreements, PEF performed a second revenue requirements analysis. PEF has submitted a revised analysis through supplemental testimony. The revised analysis shows NPV savings of approximately $44 million during the contract term, 2010-2015, rather than $133 million as originally reported. This change does not affect the overall analysis or conclusion it supported.

A. Whether the claimed savings associated with the agreements are supported by the evidence?

PEF: Yes. The projected savings during the 2010-2015 term of the agreements are supported by the analysis discussed in response to Issue No. 2 above.

B. Whether PEF has adequately identified and justified costs that will be borne by ratepayers?

PEF: Yes. The costs associated with the agreements, such as the capacity, energy and O&M costs, as well as fuel transportation and transmission costs were included in the analysis. PEF's analysis provided the best available information, and is a true representation of the impact PEF would expect on PEF customers. The costs are justified based on the results of PEF's economic analyses and the strategic benefits that the agreements will provide to PEF and its customers.

Issue 3: Whether PEF's claimed "non-price" benefits of the UPS agreements are supported and reasonable?

PEF: Yes; the non-price benefits are supported and reasonable. The "non-price" benefits identified by intervener in Issues 3A-D below are supported and reasonable for the reasons discussed below. In addition, the agreements would provide other "non-price" benefits, including increased cost certainty and increased access to coal resources.

A. Access to transmission on the Southern system;

PEF: Yes; this non-price benefit is supported and reasonable. The agreements provide access to transmission facilities on the Southern system which will give PEF access to lower cost energy that may be available within the Southern region, in those hours when the units specific to the purchase are not scheduled. PEF has exercised its rollover transmission rights and has requested redirection of those rights from Plant Miller to Plant Franklin in order to accommodate the new agreements. PEF has no reason to believe that the redirection request will be denied or limited.

B. Potential for savings from economy energy purchases;

PEF: Yes; this non-price benefit is supported and reasonable. Using an industry standard model and the methodology discussed above in response to Issue No. 2, PEF has quantified approximately $6 million to $11 million, NPV, in economy purchase savings and included that level in our economic analysis.

C. Fuel diversity;

PEF: Yes; this non-price benefit is supported and reasonable. A portion of the energy will come from coal-fired generating capacity, providing low-cost energy and serving to reduce the price volatility of PEF's fuel mix. Absent the new agreements, PEF would have no right to any of Southern's coal-fired generation after the existing agreement expires. With the new agreements, however, PEF will have rights to 74 MW of Southern coal-fired generation. Moreover, the new agreements would defer the need for a new gas-fired unit during the 2010-2015 term of the agreements. Thus, the new agreements will actually increase the projected amount of coal generation in PEF's resource plan.

D. Increased reliability; and

PEF: Yes; this non-price benefit is supported and reasonable. The agreements will allow PEF to maintain a transmission path to the Southern system, which provides access to a large resource pool, enhancing system supply reliability when the Scherer or Franklin units might be unavailable. In addition, the Franklin unit will be served from a separate gas supply system than other PEF units, enhancing fuel supply reliability.

E. Planning flexibility.

PEF: Yes; this non-price benefit is supported and reasonable. The agreements provide for extension of the combined cycle capacity for an additional two years, which can be used to meet additional load growth, defer investment in additional combined-cycle generation, or allow time for new technologies to develop. The agreement also spans a time frame that allows further consideration of the addition of coal-fired capacity on the PEF system.

Issue 4 Whether PEF's customers or stockholders should bear the risk if PEF's claimed cost and "non-price" benefits are not realized?

PEF: It is the Commission's long standing policy that prudently incurred capacity and fuel costs are directly passed through to customers under the Capacity and Fuel Cost Recovery Clause. If the Commission approves the UPS agreements as reasonable and prudent, PEF should be authorized to recover the energy and capacity costs associated with the agreements at the time the actual expenses are presented for cost recovery under the Clause.

Issue 5: Whether there is sufficient reliable transmission available to support the proposed agreements on the Southern system?

PEF: Yes. The magnitude of the purchases is basically the same as is currently being purchased. While the Franklin purchase delivers power from a different source than the current Miller purchases, PEF has no reason to believe that delivery from the new source will be a problem, and intervener has presented no reason to believe that there are any transmission constraints that would preclude sufficient reliability transmission to support the proposed agreements. In any event, the UPS Agreements provide for mitigation should transmission costs be above the Southern Open Access Transmission Tariff (OATT) rates. The mitigation measures include the potential for offsetting increased charges, provision of alternative transmission service, or even cancellation of the contract.

Issue 6: Whether PEF has demonstrated that the UPS agreements would postpone the need for other generation?

PEF: Yes. As noted above, PEF has performed analyses using the same industry standard models and assumptions typically used for developing PEF's ten year site plans and for conducting other system planning analyses. These analyses demonstrate that the UPS Agreements will defer the need for new capacity in Florida.

Issue 7: Should the Commission approve the UPS agreements for cost recovery purposes?

PEF: Yes.

G. Stipulated Issues

PEF is not a party to any stipulations at this time.

H. Pending Motions

PEF has no pending motions or other matters requiring attention at this time.

I. Pending Confidentiality Requests

PEF has seven pending confidentiality requests filed on December 13, 2004 (as amended on January 18, 2005), February 18, 2005, April 15, 2005, May 19, 2005, May 20, 2005, and two on or about May 23, 2005.

J. Compliance With Order on Procedure

PEF believes that this Prehearing Statement fully complies with the requirements of the Order Establishing Procedure.

K. Objections to Witness Qualifications

PEF has no objection to the qualifications of any expert witness.

Respectfully submitted, this 23rd day of May, 2005.

Gary V. P

R. Alexander Glenn
Deputy General Counsel
Florida Bar No. 0097896
Progress Energy Service Company, L.L.C.
100 Central Avenue, Suite 1D
St. Petersburg, FL 33701-3324

Gary V. Perko
Florida Bar No. 855898
Carolyn S. Raepple
Florida Bar No. 329142
Hopping Green & Sams, P.A.
123 S. Calhoun Street
Post Office Box 6526
Tallahassee, FL 32302

Attorneys for Progress Energy Florida, Inc.