IN THE FLORIDA PUBLIC SERVICE COMMISSION

WHITE SPRINGS AGRICULTURAL CHEMICALS, INC.,
d/b/a PCS PHOSPHATE – WHITE SPRINGS,

Appellant,

vs. PSC Docket No. 041393-EI

FLORIDA PUBLIC SERVICE COMMISSION
and PROGRESS ENERGY FLORIDA, INC.,

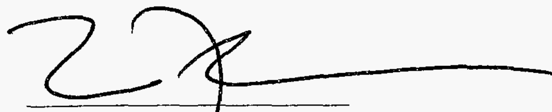
Appellees.

NOTICE OF APPEAL

NOTICE IS GIVEN that White Springs Agricultural Chemicals, Inc., d/b/a PCS Phosphate – White Springs, Appellant, appeals to the Florida Supreme Court the order of this Florida Public Service Commission rendered June 28, 2005. A copy of the order is attached. The nature of the order is the approval of two unit power sales agreements between Progress Energy Florida, Inc., and Southern Company Services, Inc., for the purposes of the recovery of costs from the ratepayers of Progress Energy Florida, Inc.

DATED this 27th day of July, 2005

Respectfully submitted,



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Notice of Appeal has been furnished by U.S. mail and e-mail transmission to the following, this 27th day of July, 2005:

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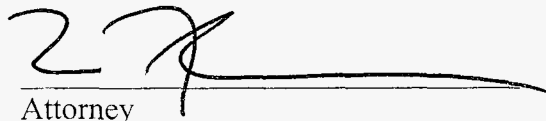

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BEFORE THE PUBLIC SERVICE COMMISSION

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 ORDER NO. PSC-05-0699-FOF-EI ISSUED: June 28, 2005

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY

APPEARANCES:

GARY V. PERKO, ESQUIRE, and CAROLYN S. RAEPPLE, ESQUIRE, Hopping Green & Sams, P. A., 123 South Calhoun Street, Tallahassee, Florida 32302 and R. ALEXANDER GLENN, ESQUIRE, Progress Energy Service Company, L. L. C., 100 Central Avenue, Suite 1D, St. Petersburg, Florida 33701-3324
On behalf of Progress Energy Florida, Inc.

JAMES M. BUSHEE, ESQUIRE, and DANIEL E. FRANK, ESQUIRE, Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Avenue, N. W., Washington, D. C. 20004-2415 and RICHARD A. ZAMBO, ESQUIRE, Richard A. Zambo, P.A., 2336 S.E. Ocean Boulevard, #309, Stuart, Florida 34996,
On behalf of White Springs Agricultural Chemicals, Inc., d/b/a PCS Phosphate – White Springs.

ADRIENNE E. VINING, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission.

FINAL ORDER APPROVING UNIT POWER SALES AGREEMENTS BETWEEN PROGRESS ENERGY FLORIDA, INC. AND SOUTHERN COMPANY FOR COST RECOVERY PURPOSES

BY THE COMMISSION:

CASE BACKGROUND

Progress Energy Florida, Inc. (PEF) currently purchases 414 megawatts (MW) of capacity and the associated energy from the Southern Company (Southern) under two unit power sales (UPS) agreements. These agreements were executed in 1988, and are set to expire on May

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31, 2010. The existing UPS agreements consist of coal-fired generation from Southern's Plant Scherer in Georgia, and Plant Miller in Alabama.

As a part of its annual fuel adjustment filing in Docket No. 040001-EI, PEF requested our approval for cost recovery of the anticipated extension of the existing UPS agreements with Southern. At the time, PEF had not yet finalized the agreements with Southern, so PEF filed a Letter of Intent it had entered into with Southern to extend the existing 1988 UPS agreements. At the prehearing conference for Docket No. 040001-EI, held on October 25, 2004, the Prehearing Officer ruled that the Commission would not address the issue until an agreement was finalized and filed with the Commission.

On November 24, 2004, PEF signed two new UPS agreements with Southern, which will replace the existing agreements upon their expiration. The two new UPS agreements consist of 424 MW of capacity, including 74 MW of coal-fired capacity from Plant Scherer in Georgia. The remaining 350 MW of capacity will be provided by Southern's natural gas-fired combined cycle unit, Franklin 1, located in Alabama. The term for each agreement is June 1, 2010, through December 31, 2015.

On December 13, 2005, PEF filed a petition requesting a finding that entering into the UPS agreements is a reasonable and prudent action by PEF to maintain its 20 percent reserve margin. PEF also requested recovery of the energy and capacity costs associated with the agreements, subject to our review of the actual expenses in the annual Capacity and Fuel Cost Recovery Clause proceedings. On March 14, 2005, we issued Order No. PSC-05-0272-PAA-EI, proposing to approve PEF's petition.

On March 31, 2005, White Springs Agricultural Chemicals, Inc. d/b/a/PCS Phosphate—White Springs (White Springs) filed a Petition for Hearing and Motion to Intervene. The matter was set for hearing on June 2 and 3, 2005, by Order No. PSC-05-0432-PCO-EI, issued April 20, 2005. A hearing was held on June 2, 2005. During the hearing, PEF's Request for Official Recognition, filed May 24, 2005, and White Springs' Motion for Reconsideration and For Shortened Response Period, filed May 23, 2005, were addressed, and both were denied. Post-hearing briefs were filed by the parties on June 8, 2005. We have jurisdiction over this subject matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

PEF'S NEW UPS AGREEMENTS

Consideration of Alternatives

PEF did not issue a Request for Proposals (RFP) to compare options to the proposed UPS agreements. However, Rule 25-22.082, Florida Administrative Code, the "bid rule," does not require investor-owned utilities to issue RFPs for the extension of power purchases. PEF's Witness Waters admitted that an RFP would provide greater assurance that the lowest cost option had been selected. Witness Waters also stated, however, that if PEF delayed the agreements to issue an RFP, the agreements, and in particular the coal-fired capacity, could be placed at risk. Southern has no obligation to participate in an RFP, or to wait until after PEF completed an RFP process before selling the capacity to another party. Witness Waters believes that other parties

that are deciding whether to build would be looking for capacity in the 2010 time-frame. We find that while an RFP would have given more assurance that lower cost options were not available, it was reasonable for PEF to not issue an RFP in this instance. We agree with PEF that delaying the contracts to issue an RFP could have placed the agreements, particularly the coal capacity, at risk. The recent high and volatile natural gas prices have increased the value of coal capacity for utilities; therefore, it is reasonable to assume that Southern could have sold the 74 MW of coal capacity to another party, even a relatively small municipal or cooperative utility. Municipal and cooperative utilities have no obligation to issue an RFP or request cost recovery from the Commission.

We disagree with White Springs' position that PEF "failed to reasonably consider alternatives to the UPS agreements." Witness Waters testified that he is "unaware of any merchant coal generation in Florida, other than one facility we are currently in negotiations with for purchases beginning in 2006." PEF has received no coal-fired bids from existing units in response to its two most recent RFPs. Witness Waters stated that he knows of several utilities that are planning coal-fired generating units in Florida and the surrounding states; however, these units will not be placed in service prior to the 2010 need. PEF compared the proposed natural gas-fired Franklin agreement to the bids in its most recent RFPs and found the pricing to be comparable.

In conclusion, we find that while PEF did not issue an RFP, PEF adequately tested the market for alternatives through other means. PEF reviewed coal options, but found that new coal generation cannot be placed in service in time to meet the 2010 need. PEF has received no bids from existing coal generation in response to its two most recent RFPs. This provides some level of assurance that the proposed UPS agreements could not be replaced by lower priced existing coal generation. PEF is also in negotiations for a coal capacity contract beginning in 2006. As a test for the pricing of the gas portion of the proposed agreements, PEF compared the proposed natural gas-fired Franklin agreement to gas-fired bids in its two most recent RFPs. The pricing appears to be comparable.

PEF's Cost-Effectiveness Analysis

PEF tested the cost-effectiveness of the proposed UPS agreements by comparing two expansion plans, a "base case" without the agreements, and a second case which included the agreements.

The generating units included in each expansion plan are reflected below:

Base Case Expansion Plan (without UPS agreements)	**Alternative Expansion Plan (with UPS agreements)**
2010 combined cycle	2011 combined cycle
2012 combined cycle	2018 combined cycle
2017 coal	2015 coal
2019 combustion turbine	2017 combustion turbine

We disagree with White Springs that PEF did not demonstrate that its base case was least cost. PEF appears to have used accepted planning methodology to develop its base case expansion plan, and the resulting plan closely mirrors the expansion plan in PEF's 2004 Ten-Year Site Plan. We previously reviewed PEF's 2004 Ten-Year Site Plan and found the Plan to be suitable for planning purposes.

As can be seen in the table, according to PEF's analysis the UPS agreements defer the need for one natural gas-fired combined cycle unit from 2010 to 2011, and defer a second combined cycle from 2012 to 2018. In PEF's analysis, the in-service date of a coal unit is also advanced from 2017 to 2015 due to the addition of the UPS agreements. PEF provided two cost comparisons of the expansion plans: 1) a short-term analysis over the five-year contract term; and, 2) a long-term analysis from 2010 to 2055, representing the five-year term of the contract followed by the assumed 40-year life of a 2015 coal-fired generating unit.

PEF's initial short-term net present value (NPV) analysis showed a significant up-front savings of $133 million from 2010 until 2015, due to the deferral of the two combined cycle generating units. PEF also estimated an additional $12 million in potential savings from economy purchases facilitated by the transmission associated with the agreements. PEF's assumptions used in estimating these cost savings from economy purchases appear to be reasonable. PEF's long-term comparison of the two expansion plans resulted in a negative $5 million NPV over 45 years, with a base case economy energy purchase assumption. PEF performed a sensitivity analysis assuming a 50 percent economy purchase reduction, which resulted in a negative $11 million NPV over 45 years.

On May 10, 2005, Witness Waters filed supplemental testimony in which PEF revised its estimated five-year contract term benefits downward from $133 million to $44 million. Witness Waters stated that the error involved the values used for the capital expenses for the proposed units in PEF's year-by-year analysis. PEF was unable to provide copies of the back-up spreadsheets or to recreate its flawed analysis. We find it troubling that PEF cannot identify where or how the error occurred. White Springs' Witness Brubaker's attempt to recreate PEF's

short-term analysis resulted in a $37 million NPV savings. Witness Brubaker stated that the difference between the $44 million and $37 million savings was not material. Some of our concerns are alleviated by the fact that the result of Witness Brubaker's calculation is not materially different from PEF's. PEF stated that the error in its short-term analysis did not impact its long-term analysis because this was a separate analysis performed with a different methodology. We believe it is of particular importance that the error also did not alter the timing and technologies of the units in the two expansion plans.

We have reviewed PEF's revised short-term cost-effectiveness analysis. We agree with White Springs that PEF's error in the five-year NPV analysis casts doubt on the specific dollar impact over the contract term. However, we believe that significant savings will occur during the contract term because it is reasonable to assume that the contracts will defer natural gas-fired capacity, similar to the Franklin capacity. PEF provided sufficient evidence that capacity is needed in 2010 to meet its 20 percent reserve margin, and the units assumed in PEF's base case analysis appear to be reasonable. PEF's 2004 Ten-Year Site Plan included the natural gas-fired combined cycle units in 2010 and 2011 which are deferred in PEF's analysis of the UPS agreements. Further, PEF provided adequate evidence that its capacity needs in 2010 could not be met with new or existing coal capacity. Therefore, we disagree with White Springs that PEF failed to demonstrate that its "base case" and "altered case" can reasonably be expected to produce the least cost or best alternative. We also disagree with White Springs that "PEF has only demonstrated that the altered case may produce short-term benefits when compared solely to its base case."

We have some concerns that PEF's long-term analysis shows an expected $5 to $11 million cost from 2010 to 2055. However, we note that the NPV outcome of this long-term analysis is highly dependent on the time period used in the analysis, because the timing of several units is altered by the inclusion of the UPS agreements in PEF's expansion plan. We believe that the up-front benefits over the life of the proposed contracts are more certain than the potential costs based on a 45-year analysis. There is sufficient certainty that significant benefits will occur due to the deferral of natural-gas fired combined cycle technology between 2010 and 2015. PEF's expansion plan following the contracts through 2055 is much less certain. Therefore, we place more credence on the short-term benefits of the contracts than the potential long-term costs.

Our concerns about the potential long-term costs are also alleviated by the important non-price benefits of the contracts. These benefits include: 1) fuel diversity due to the 74 MW of coal capacity; 2) transmission access into Southern's system and beyond; 3) potential savings from economy energy purchases and sales; 4) increased reliability; and, 5) planning flexibility. These non-price benefits will be discussed below.

In summary, we find that PEF's cost-effectiveness analysis is reasonable and supported by the evidence. PEF used an accepted system planning methodology to develop the two expansion plans compared in its analysis, and its base-case mirrors its approved 2004 Ten-Year Site Plan. PEF's error in its initial analysis casts doubt on the specific short-term savings. However, we find that significant savings will occur during the contract term because the contracts should defer natural gas-fired combined cycle capacity. These savings are more certain

than the estimated long-term costs. Potential long-term costs are also mitigated by the important non-price benefits associated with the contracts. Given the more certain up-front benefits and additional non-price benefits, we find that the UPS agreements are worth the risk that an expansion plan that includes the agreements may have a negative $5 to $11 million NPV through 2055.

Identification and Justification of Costs by PEF

PEF compared the costs of the self-build plan to an expansion plan that includes the proposed UPS agreements. Witness Waters delineated the costs in PEF's analysis, which included "not only the costs of construction, new unit fuel and O&M, and power purchase costs, but system fuel impacts as well. System infrastructure costs, such as fuel handling and transportation, and electrical transmission are also included." We have reviewed PEF's cost assumptions and find that the assumptions are reasonable.

PEF did not include costs for any potential transmission upgrades in its analysis. As discussed below, PEF assumed that transmission will be provided at Southern's embedded rate for Long Term Firm Transmission Service under Southern Company Transmission's Open Access Transmission Tariff (OATT). Transmission costs may be higher than Southern's tariff rates if there are system impacts from redirecting transmission; however, the agreements contain provisions which may mitigate these costs. Therefore, we find that it was reasonable for PEF to use Southern's tariff rates in the analysis. Recovery of any potential transmission costs in excess of the tariff rates will be discussed below.

PEF did not include start-up costs in its model. These costs occur when generating units are cycled on and off. The Franklin contract contains a provision which compensates Southern for start costs depending on the number of times the unit is cycled. Witness Waters stated that start costs were not included in the model because the contracts are deferring similar natural gas-fired combined cycle units. He expects that these units would be dispatched in a similar manner as the Franklin unit. Witness Waters stated "We are comparing apples-to-apples, so there would be no real net effect on the economics." PEF did not provide a comparison of the start-up costs for its own combined cycle units to the start-up pricing required under the Franklin agreement. Nevertheless, we find that the assumption that the difference in the start costs would not be significant because the generating units being compared are similar is reasonable.

PEF did not perform a natural gas price sensitivity analysis. White Springs provided evidence that PEF's natural gas forecasts have changed dramatically over a relatively short period of time. In this instance, we agree with Witness Waters that a natural gas sensitivity analysis with higher gas prices would tend to favor the expansion plan that includes the UPS agreements, as this plan includes the 74 MW of coal capacity from the Scherer unit. It is reasonable to assume that the contracts would be replacing similar natural gas-fired capacity. The record indicates that PEF could not place a coal unit in service to meet the 2010 need. Further, PEF has not received any bids from existing coal-fired capacity in its two most recent RFPs.

In summary, we find that PEF adequately identified and justified the potential costs of the agreements. PEF appropriately compared the costs of the self-build plan to an expansion plan that includes the proposed UPS agreements. PEF adequately identified the potential costs of the agreements, including capacity, energy, O&M, and fuel transportation costs. It was reasonable for PEF to use Southern's tariff transmission rates in its analysis. However, as discussed further later in this Order, recovery of any transmission costs in excess of Southern's tariff rates, which were not provided in the record, shall not be approved at this time. PEF also provided adequate justification to assume a zero start cost, and to not perform a gas price sensitivity analysis. As discussed above, PEF provided evidence to justify the costs, given the expected savings and non-price benefits over the life of the contract.

Non-Price Benefits of the UPS Agreements

We agree with PEF that the UPS agreements have several non-price strategic benefits. These benefits are difficult to quantify; however, we disagree with White Springs that these benefits should not be considered. We believe these non-price benefits, in particular the transmission rights and access to coal capacity, are essential in determining whether the contracts should be approved.

Transmission Access and Economy Energy. The UPS agreements allow PEF to exercise its roll-over rights and maintain transmission access to the Southern system and beyond. This provides access to potential economy energy purchases and sales and increases reliability. PEF believes that the UPS agreements will provide the opportunity for increased economy purchases because a portion of the capacity is natural-gas fired. The Franklin unit will not be dispatched over as many hours as a coal-fired unit, providing PEF with excess transmission capacity that may be used to transport economy energy in the hours when PEF is not taking energy from Franklin. PEF also believes that its rights to the Florida/Georgia interface, while independent of the agreements, may be placed at risk if the contracts are not approved, and if PEF does not use the interface for another purpose.

Fuel Diversity. Although the UPS agreements provide less coal capacity than the existing agreements, more coal capacity is provided than under the self-build option. Placing this coal-fired capacity under contract will reduce the exposure of PEF's ratepayers to fuel price volatility. PEF has also obtained a right-of-first refusal on additional coal capacity to replace all or part of the Franklin natural gas-fired capacity. We disagree with White Springs that the proposed agreements do not increase fuel diversity because the coal capacity has been reduced compared to the existing agreements. The impact on fuel diversity should be compared to the options available to purchase or place in service in 2010, not based on the coal capacity provided under the existing Southern UPS agreements. White Springs provided no evidence that PEF could place a coal plant in service by 2010 or that additional coal capacity would be available for PEF to purchase. The record indicates that a coal plant would take at least seven years to site and build. PEF has not received bids for capacity from existing coal units in its two most recent RFPs.

Planning Flexibility. PEF has obtained a right to extend the contracted Franklin capacity to 2017, or it can let the agreement expire. Witness Waters stated that if PEF does extend the

Franklin agreement, recovery would be subject to our review. The contracts also give PEF additional time to study the cost-effectiveness and feasibility of adding coal-fired capacity. PEF provided information on two recent internal and external analyses of the impact of adding coal-fired capacity to PEF's system. PEF assumed that the in-service date of a coal-fired unit would be moved up from year 2017 to 2015 in its expansion plan with the UPS agreements. Finally, the agreements appear to have greater scheduling flexibility than the existing agreements.

Reliability. The UPS agreements increase reliability by: 1) adding an outside source for natural gas transportation to fuel the Franklin unit; and, 2) providing access to energy from Southern's system and beyond.

In conclusion, we find that the non-price benefits discussed above are reasonable and provide important potential benefits for PEF and its ratepayers. The fuel diversity and planning flexibility afforded by the agreements are of particular importance due to the volatility and forecasting uncertainty of natural gas prices. The coal-fired capacity from Southern's Scherer unit will reduce PEF's ratepayers' exposure to fuel price volatility, while the timing of the contracts will give Progress the flexibility to defer natural gas-fired capacity and potentially move up the in-service date of a coal-fired unit.

Recovery of Costs Associated with the UPS Agreements

We agree with PEF that it is Commission policy for purchased power costs which are found to be reasonable and prudent to be recovered from the ratepayers. Recovery of capacity and energy costs associated with the UPS agreements shall be permitted through the appropriate cost recovery clauses. Recovery of actual expenses shall be subject to a finding of reasonableness and prudence when recovery is requested by PEF.

We find that recovery of reasonable and prudent expenses through the cost recovery clauses is appropriate. PEF's stockholders do not receive earnings on purchased power agreements. Ratepayers will receive all benefits from the up-front savings associated with deferring the need for natural gas-fired capacity. Ratepayers will further benefit from cost savings on economy purchases facilitated by the associated transmission. Profits on economy sales made by PEF from the Southern capacity will be split 80/20 between PEF's ratepayers and stockholders, if PEF has surpassed its three-year rolling average economy sales threshold. If PEF has not met this threshold, 100 percent of profits from economy sales will be credited to PEF's ratepayers.

We find that it is not appropriate for ratepayers to bear the risk of transmission costs which have not been identified in the record without further Commission review. PEF may experience additional transmission costs due to the need to redirect the transmission path from the Miller to the Franklin Plant. Any transmission costs in excess of tariff rates shall be subject to further Commission review when actual costs are known and recovery is requested. Likewise, if PEF extends the Franklin agreement, as discussed above, recovery shall be subject to Commission review.

We disagree with White Springs that "PEF's stockholders should bear the risk that the claimed benefits will fail to materialize, because PEF entered into transmission arrangements associated with these agreements prior to Commission approval." The agreements contain provisions which mitigate the transmission costs, or allow PEF to terminate the agreements, if transmission costs exceed specified levels. Therefore, we find that it was not imprudent for PEF to request rollover transmission rights prior to receiving Commission approval for the proposed UPS agreements.

In conclusion, we hereby approve recovery of capacity and energy costs associated with the UPS agreements subject to a finding of reasonableness and prudence of the actual expenses when recovery is requested. Any transmission costs in excess of tariff rates or an extension of the Franklin agreement shall be subject to further review by the Commission to determine if PEF's actions in these instances are reasonable and prudent.

Cost and Availability of Transmission Rights

PEF's existing UPS agreements with Southern provide for 414 MW from the Miller and Scherer units. These agreements are bundled agreements which include transmission rights on Southern's system. PEF has "rollover rights" to this transmission because PEF was purchasing through this transmission path prior to the FERC ruling to unbundle transmission rights. In other words, PEF is "first-in-line" for these transmission rights.

PEF has requested, and Southern has affirmed, PEF's rollover rights. However, because PEF will be purchasing from the Franklin unit rather than the Miller unit under the new agreements, the transmission path must be redirected. Consequently, on April 12, 2005, Southern notified PEF that a System Impact Study (SIS) would be required to determine available capacity and potential upgrade costs. On April 18, 2005, PEF signed the SIS agreement and paid Southern $10,000 to perform the study. PEF expects to receive the completed study on or about June 25, 2005. According to Witness Waters, under Southern Company Transmission's OATT, PEF must come to a final transmission agreement with Southern within 15 days of receiving the results of the SIS if there is no impact from redirecting the transmission. PEF also stated that "[T]he interface allocation that currently accommodates the UPS purchases from Southern is sufficient to accommodate the proposed purchases."

PEF assumed a transmission rate of $1.94/kW-month in its cost-effectiveness analysis. This is equivalent to the embedded rate for Long Term Firm Transmission Service under Southern Company Transmission's OATT. PEF did not include costs for any potential transmission upgrades in its analysis.

Witness Waters stated that he has no reason to believe sufficient transmission will not be available from the Franklin plant to PEF's system because the Franklin plant is "essentially between Miller and us." Given the location of the Franklin plant relative to the Miller plant, we find that it is reasonable to assume that there will not be significant costs for transmission upgrades. However, if the SIS does conclude that there are system impacts, there are provisions in the contract which mitigate PEF's exposure to transmission costs in excess of the tariff rate. If a specified portion of the transmission is then offered to PEF at above the tariff rate, PEF has

the option to terminate the agreement. Further, the Scherer and Franklin UPS agreements also contain sections which tie the agreements together. Therefore, if PEF determines that it is appropriate to terminate the Franklin agreement because sufficient transmission is not available, or necessary transmission upgrades are too costly, the Scherer Agreement would also be terminated. A final transmission agreement must be reached by February 2006, unless both parties agree to extend the deadline.

In conclusion, we find that given the location of the Franklin plant relative to the Miller plant, it is reasonable to assume that sufficient transmission will be available to accommodate the proposed UPS agreements; however, additional transmission costs may occur if Southern's SIS finds that there are system impacts from redirecting transmission from the Miller path to the Franklin path. The UPS agreements contain provisions which provide PEF with options to mitigate these potential costs. These potential costs will not be known until Southern completes its SIS study and PEF acts on the results of the study. PEF's cost-effectiveness analysis did not include transmission costs in excess of Southern's tariff rate. Therefore, we find that it is inappropriate to include approval of transmission costs in excess of Southern's tariff rates because PEF did not provide evidence of these costs in the record. PEF's Witness Waters agreed that it is his understanding that any excess transmission costs would be at risk if PEF requested recovery. As a result, we find that PEF shall be required to file: 1) the results of the SIS; 2) an estimate of costs in excess of Southern's tariff rate; and, 3) PEF's intended response to the study, with the Commission as soon as the SIS is completed and PEF determines its response. This filing will put the Commission on notice of any potential additional transmission costs that PEF may request recovery for in the future.

Deferral of Natural Gas-Fired Capacity

PEF provided sufficient evidence that the 424 MW of capacity provided by the UPS agreements is needed to maintain PEF's 20 percent reserve margin. PEF's reserves would fall from 23 percent to approximately 18 percent in 2010 if the current contract capacity is not replaced.

PEF's analysis showed that during the term of the contracts, two natural gas-fired combined cycle units would be deferred. The first unit would be deferred from 2010 until 2011, while the second unit would be deferred from 2012 through 2018. PEF's 2004 Ten-Year Site Plan, which did not assume the continuation of the proposed agreements, included 2010 and 2012 combined cycle units. PEF's 2005 Ten-Year Site Plan, which does include the UPS agreements, shows a similar expansion plan to the 2004 Ten-Year Site Plan, which did not include the agreements. However, Witness Waters stated that the plans are similar due to an approximately 300 to 400 MW expansion in PEF's peak demand and load forecast. We agree with White Springs that the record appears to show that the contracts will defer the need for generation. We also believe it is reasonable to assume that the avoided generation will be natural gas-fired combined cycle capacity, similar to the Franklin capacity. PEF adequately demonstrated that coal capacity cannot be placed in service or purchased in time to meet the 2010 need. Therefore, we find that the record shows that the agreements will defer natural gas-fired combined cycle capacity, which is needed to maintain PEF's 20 percent reserve margin.

Approval of the UPS Agreements for Cost Recovery Purposes

PEF has adequately demonstrated that entering the proposed UPS agreements with Southern is a reasonable and prudent action at this time. The contracts will provide significant economic benefits over the life of the contracts due to the deferral of natural gas-fired capacity. The agreements also provide important non-price benefits, including: 1) fuel diversity; 2) transmission access; 3) potential savings from economy energy purchases; 4) increased reliability; and, 5) planning flexibility. Given these more certain up-front economic and non-price benefits, we find that it is worth the risk that the estimated $5 to $11 million long-term cost through 2055 materializes. Delaying approval of the contracts may place the agreements, in particular the transmission access and coal capacity, at risk.

As discussed above, transmission costs may be higher than Southern's tariff rate if there are system impacts from redirecting transmission. Ratepayers are somewhat protected by the contract provisions which may mitigate these costs; however, total transmission costs will not be known until Southern completes its SIS and PEF acts on the results of the study. Transmission costs above Southern's tariff rates shall not be approved at this time because PEF did not provide evidence of these costs in the record. PEF shall be required to file: 1) the results of the SIS; 2) an estimate of costs, if any, in excess of Southern's tariff rate; and, 3) PEF's intended response to the results of the study, with the Commission as soon as the SIS is completed and PEF determines its response. Also, if PEF extends the Franklin agreement, the associated costs shall be subject to further review.

Therefore, we hereby approve the UPS agreements for cost recovery purposes. Given the significant economic and non-price benefits over the life of the agreements demonstrated by PEF, we find that entering into the proposed agreements is a reasonable and prudent action at this time.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Unit Power Sales Agreements between Progress Energy Florida, Inc. and Southern Company, which are scheduled for take effect on June 1, 2010, and continue to December 31, 2015, are hereby approved for cost recovery purposes, as set forth in the body of this Order. It is further

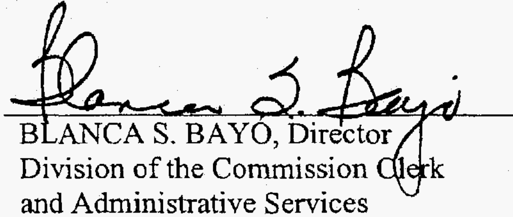
ORDERED that Progress Energy Florida, Inc. shall file the results of the System Impact Study, an estimate of transmission costs, if any, in excess of Southern's tariff rate, and Progress Energy Florida, Inc.'s intended response to the results of the study. It is further

ORDERED that Progress Energy Florida, Inc.'s Request for Official Recognition, filed May 24, 2005, is hereby denied. It is further

ORDERED that White Springs Agricultural Chemicals, Inc. d/b/a/PCS Phosphate—White Springs' Motion for Reconsideration and For Shortened Response Period, filed May 23, 2005, is hereby denied. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission this 28th day of June, 2005.



BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

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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 or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.