

# Hopping Green & Sams

Attorneys and Counselors

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

February 24, 2006

RECEIVED - JNSO  
FEB 24 PM 4:17  
COMMISSION  
CLERK

## 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. 060162-EL  
Petition of Progress Energy Florida, Inc., to recover modular cooling tower costs  
through the fuel cost recovery clause.

Dear Ms. Bayó:

On behalf of Progress Energy Florida, Inc. ("PEF"), I have enclosed for filing the original and fifteen copies of the following:

- PEF's Petition to Recover Modular Cooling Tower Costs Through the Fuel Cost Recovery Clause; 01638-06
- Pre-filed Direct Testimony of Thomas Lawery; and 01639-06
- Pre-filed Direct Testimony of Javier Portuondo. 01640-06

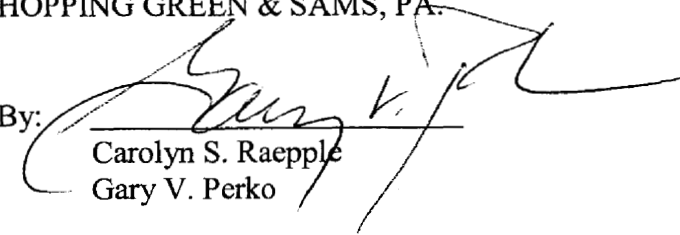
I also have enclosed a diskette containing the Petition in Word format.

Please stamp and return the enclosed extra copy of this filing. If you have any questions regarding this filing, please call either of us at 222-7500.

Very truly yours,

HOPPING GREEN & SAMS, PA.

By:

  
Carolyn S. Raepple  
Gary V. Perko

GVP/mee  
Enclosures  
cc: R. Alexander Glenn, Esq.

DOCUMENT NUMBER - DATE

01638 FEB 24 06

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition of Progress Energy Florida, Inc., to recover modular cooling tower costs through the fuel cost recovery clause.

DOCKET NO. 060162-EL

FILED: February 24, 2006

**PETITION OF PROGRESS ENERGY FLORIDA, INC. TO RECOVER MODULAR COOLING TOWER COSTS THROUGH THE FUEL COST RECOVERY CLAUSE**

Progress Energy Florida, Inc., (“Progress Energy” or the “Company”), pursuant to Section 366.06, Florida Statutes (“F.S.”) and prior orders of the Commission, hereby petitions for an order approving recovery, through the Fuel and Purchase Power Cost Recovery Clause (“Fuel Clause”), of the costs of its modular cooling tower project. As further discussed below and in the pre-filed testimony submitted with this Petition, the modular cooling tower project will minimize de-rates necessary to comply with environmental requirements and thereby result in substantial fuel savings to Progress Energy’s customers. Furthermore, the costs of the project are not recovered in the Company’s current base rates. As such, under long-standing Commission policy and precedent, recovery of reasonably and prudently incurred costs for the modular cooling tower project is appropriate through the Fuel Clause.

In further support of this Petition, Progress Energy states:

**Background**

1. Progress Energy Florida, Inc., is a public utility subject to the regulatory jurisdiction of the Commission under Chapter 366, Florida Statutes. The Company’s principal offices are located at 100 Central Avenue, St. Petersburg, Florida.

DOCUMENT NUMBER-DATE

01638 FEB 24 06

FPSC-COMMISSION CLERK

2. All notices, pleadings and other communications required to be served on the petitioner should be directed to:

Gary V. Perko  
Carolyn S. Raepple  
Hopping Green & Sams, P.A.  
Post Office Box 6526  
Tallahassee, FL 32314

R. Alexander Glenn  
Deputy General Counsel  
Progress Energy Services Company, LLC.  
100 Central Avenue, Suite 1D  
St. Petersburg, FL 33701-3324

3. Simultaneously with this Petition, Progress Energy is submitting the pre-filed testimony of two witnesses to ensure the Commission has ample information to develop its proposed agency action (PAA) on the Company's request. By submitting pre-filed testimony, the Company does not imply that it believes a hearing will be involved in the disposition of the Petition. In addition, the Company reserves its right to submit additional testimony addressing issues identified in any protest of the PAA Order.

**Basis for Recovery**

4. In Order No. 14546, the Commission established comprehensive guidelines for the recovery of costs through the Fuel Clause. In that 1985 Order, the Commission recognized that certain unanticipated costs are appropriate for recovery through the Fuel Clause. Specifically, the Commission recognized that Fuel Clause recovery is appropriate for:

Fossil fuel-related costs normally recovered through base rates but which were not recognized or anticipated in the cost levels used to determine current base rates and which, if expended, will result in fuel savings to

customers. Recovery of such costs should be made on a case by case basis after Commission approval.

The Commission repeatedly has approved recovery of such unanticipated costs through the fuel clause when those expenditures resulted in significant savings to the utility's ratepayers. See e.g., Order Nos. PSC-98-0412-FOF-EI, PSC-97-0359-FOF-EI, PSC-97-0359-FOF-EI, PSC-97-0359-FOF-EI, PSC-96-1172-FOF-EI, PSC-95-0450-FOF-EI, and PSC-94-1106-FOF-EI. As discussed below and in the pre-filed testimony submitted with this petition, the costs of the modular cooling tower project are unanticipated and will result in significant savings to Progress Energy's ratepayers. As such, the costs of the project qualify for recovery through the Fuel Clause under Order No. 14546.

#### **The Modular Cooling Tower Project**

5. The project involves installation and operation of modular cooling towers in the summer months in order to reduce fuel costs to customers by minimizing "de-rates" of Progress Energy's Crystal River Units 1 and 2 (CR-1 and CR-2) necessary to comply with a permit limit for the temperature of cooling water discharged from the Crystal River plant ("thermal permit limit").

6. The primary strategy for complying with the thermal permit limit is the operation of permanent cooling towers. Once the cooling capacity of the towers is reached, the only other immediate option to ensure permit compliance is to de-rate CR-1, CR-2 or both. Recently, de-rates necessary to ensure permit compliance have increased due to weather conditions beyond PEF's control that have increased the temperature of inlet waters for the CR-1 and CR-2 cooling systems. The inlet water temperatures and

associated thermal de-rates were particularly severe in summer of 2005 which, according to the National Weather Service, was the second hottest summer since 1890.

7. Because CR-1 and CR-2 are base-loaded coal units, whenever those units are de-rated Progress Energy must replace the lost generation by using more expensive oil or gas-fired units, or by purchasing higher-cost power on the open market. By minimizing the number and extent of de-rates necessary to comply with the thermal limit, the project will substantially reduce replacement fuel and purchase power costs.

8. Based on the relative efficiencies and costs of the various options, the modular cooling tower alternative is the most cost-effective option for minimizing de-rates associated with the thermal permit limit. Moreover, use of modular towers will enable the Company to assess whether the thermal de-rate problem is a temporary or cyclical phenomenon before costs are unnecessarily expended on a permanent solution. Unlike permanent towers, the modular towers can be easily mobilized and used at other locations if they are no longer needed at the Crystal River plant at some point in the future.

#### **Fuel Cost Savings**

9. As discussed in the pre-filed testimony of Javier Portuondo, the modular cooling tower project is projected to result in cumulative net fuel cost savings of approximately \$45 million over five years. Additionally, in each of the five years, annual fuel cost savings are projected to exceed the estimated costs of the project.

#### **Project Costs**

10. Progress Energy estimates project costs of approximately \$2 million to \$3 million per year beginning in 2006. Project costs are expected to include O&M expenses

for unit mobilization and setup, rental fees, de-mobilization, and fill replacement. Additionally, in 2006, PEF expects to incur one-time capital expenses of approximately \$1.5 million to \$2 million for installation and ancillary equipment, such as power transformers, switchgear, and cable.

### **No Base Rates Recovery**

11. As discussed in the pre-filed testimony of Javier Portuondo, the modular cooling tower project was not anticipated when Progress Energy's current base rates were established in Docket No. 050078-EI. The Company's evaluation of the project was prompted by record high temperatures and associated de-rates experienced during the summer of 2005. The evaluation began after the Company submitted its rate case MFRs in April 2005 and was completed after the Commission approved the Company's current base rates in September 2005. Thus, the costs of the project could not have been anticipated in the cost levels used to determine Company's base rates.

### **Prudence of Expenditures**

12. Progress Energy is conducting a competitive bidding process to ensure that costs are reasonable and prudent. As part of the bid evaluation process, PEF is analyzing traditional leasing and lease-to-own options submitted by various bidders.

### **Recovery Mechanism**

13. Progress Energy proposes to recover all costs incurred for the modular cooling towers to the extent they do not exceed cumulative fuel savings attributable to operation of the modular towers. Actual costs incurred for the modular towers would be

subject to Commission review for prudence and reasonableness as they are submitted for recovery through the Fuel Clause. Fuel savings will be calculated by determining the amount of avoided de-rates resulting from the operation of the modular towers and then calculating the difference between modeled system fuel costs with the towers and modeled system fuel costs that would have been incurred had the de-rates not been avoided.

**No Material Facts in Dispute**

14. Progress Energy is not aware of any dispute regarding any of the material facts contained in this petition.

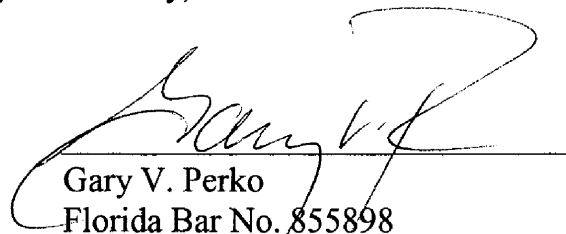
**Conclusion and Request for Relief**

15. For the reasons discussed above and in the pre-filed testimony submitted with this Petition, the modular cooling tower project will result in fuel savings to customers and the costs of the project were not recognized or anticipated in the cost levels used to determine current base rates. Accordingly, under the policy established in Order No. 14546, recovery of reasonably and prudently incurred costs for the project is appropriate through the Fuel Clause.

WHEREFORE, Progress Energy Florida, Inc., respectfully requests that the Commission enter an order approving recovery of the reasonably and prudently incurred costs of the Company's installation and operation of modular cooling towers at the Crystal River Plant through the Fuel and Purchase Power Cost Recovery Clause to the extent such costs do not exceed cumulative fuel cost savings attributable to operation of the modular towers.

Respectfully submitted, this 29<sup>th</sup> day of February, 2006.

R. Alexander Glenn  
Florida Bar No. 0097896  
Deputy General Counsel  
Progress Energy Service Company, L.L.C.  
100 Central Avenue, Suite 1D  
St. Petersburg, FL 33701-3324  
[alex.glenn@pgnmail.com](mailto:alex.glenn@pgnmail.com)



Gary V. Perko  
Florida Bar No. 855898  
Carolyn S. Raeppe  
Florida Bar No. 329142  
Hopping Green & Sams, P.A.  
Post Office Box 6526  
Tallahassee, FL 32314  
[garyp@hgslaw.com](mailto:garyp@hgslaw.com)  
[carolynr@hgslaw.com](mailto:carolynr@hgslaw.com)  
Tel.: 850-425-2359; Fax: 850-224-8551

Attorneys for PROGRESS ENERGY FLORIDA