Progress Energy

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April 30, 2007

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COMMISSION CLERK
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Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Petition of Progress Energy Florida to increase base rates to recover the full revenue requirements of the Hines Unit 2 and Unit 4 power plants pursuant to Commission Order No. PSC-05-0945-S-EI; Docket No. 070290-EI

Dear Ms. Cole:

On behalf of Progress Energy Florida, Inc. ("PEF"), please find enclosed for filing in the above docket the original and seven (7) copies of the following:

- Petition to increase base rates to recover the full revenue requirements of the Hines Unit 2 and Unit 4 power plants pursuant to Commission Order No. PSC-05-0945-S-EI; 03651-07
- Direct Testimony of Javier Portuondo and Exhibit No. __ (JP-1), Exhibit No. __ (JP-2), Exhibit No. __ (JP-3), Exhibit No. __ (JP-4), Exhibit No. __ (JP-5), Exhibit No. __ (JP-6), Exhibit No. __ (JP-7), Exhibit No. __ (JP-8), and Exhibit No. __ (JP-9); 03652-07
- Direct Testimony of Gary Furman and Exhibit No. ___ (GF-1); 03653-07
- Direct Testimony of Kevin Murray and Exhibit No. ___ (KM-1), Exhibit No. ___ (KM-2), Exhibit No. ___ (KM-3) and Exhibit No. ___ (KM-4); and 3654-07
- PEF's Request for Confidential Classification regarding the information provided in Exhibit No. __ (KM-1) and Exhibit No. __ (KM-2) to the direct testimony of Kevin Murray. 03657

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning it to me. If you have any questions regarding this filing, please call me at (727) 820-5587.

RECEIVED & FILED
R. V. N
BUREAU OF RECORDS

Sincerely,

R. Alexander Glenn
R. Alexander Glenn

Progress Energy Florida, Inc.
106 E. College Avenue
Suite 800
Tallahassee, FL 32301

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Progress Energy Florida) to increase base rates to recover the full) revenue requirements of the Hines Unit 2) and Unit 4 power plants pursuant to) Commission Order No. PSC-05-0945-S-EI)	Docket No: 070290 -EI Submitted for Filing: April 30, 2007

PETITION

Florida Power Corporation dba Progress Energy Florida, Inc. ("PEF"), pursuant to Paragraphs 12.a. and 12.b. of the Stipulation and Settlement Agreement approved by the Florida Public Service Commission (the "Commission") in Order No. PSC-05-0945-S-EI dated September 28, 2005, hereby requests that the Commission allow PEF to recover in base rates (a) the full revenue requirements of the installed cost of the Hines Unit 2 power plant, excluding the unit's non-fuel O&M expenses, and (b) the installed cost of the Hines Unit 4 power plant, including the unit's non-fuel O&M expenses, beginning on the commercial in-service date of Hines Unit 4. In support of this Petition, PEF states as follows:

1. PEF is a public utility subject to the regulatory jurisdiction of the Commission pursuant to Chapter 366 of the Florida Statutes. PEF's principal place of business is located at 299 First Avenue North, St. Petersburg, Florida 33701. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes, and under Order No. PSC-05-0945-S-EI and PEF invokes that jurisdiction in filing this petition. PEF has a substantial interest in the rates it receives for electric service.

2. All notices, pleadings and correspondence required to be served on the petitioner

in this docket should be served upon the following individuals:

R. Alexander Glenn
Deputy General Counsel – Florida
John T. Burnett
Associate General Counsel
Progress Energy Service Company, LLC
Post Office Box 14042
St. Petersburg, Florida 33733-4042
Phone (727) 820-5587
Facsimile: (727) 820-5249

Paul Lewis, Jr.
Director, Regulatory Affairs
Progress Energy Florida
106 E. College Ave., Suite 800
Tallahassee, FL 32301
Phone: (850) 222-8738
Facsimile: (850) 222-9768

3. On September 28, 2005, in Order No. PSC-05-0945-S-EI, the Commission approved a Stipulation and Settlement Agreement that resolved PEF's petition to increase base rates in Docket No. 050078-EI. Under the Stipulation and Settlement Agreement, the parties agreed that, upon commercial in-service date of Hines Unit 4, PEF would be authorized to transfer the recovery of the Hines Unit 2 revenue requirements from the Fuel Clause to base rates. Specifically, Paragraph 12.b. of the Stipulation and Settlement Agreement provided that:

> Upon the commercial in-service date of Hines Unit 4, PEF will transfer the recovery of Hines Unit 2's 2006 full revenue requirements, excluding the unit's non-fuel O&M expenses, from the fuel cost recovery clause to base rates by decreasing PEF's fuel charges and increasing its base rates accordingly. The calculation of Hines Unit 2's revenue requirements for base rate recovery purposes will be calculated using an 11.75% ROE and the capital structure set forth in the test year 2006 MFR Schedule D-1a filed by PEF in Docket No. 050078-EI. Such base rate increase shall be established by the application of a uniform percentage increase to the demand and energy charges of the Company's base rates including voltage credits, demand credits, power factor adjustment and premium distribution service, and using billing determinants as filed by PEF in Docket No. 050078-EI, and as included in Exhibit 1, Attachment C to this Agreement. Beginning on the commercial in-service date of Hines Unit 4, such amounts shall be added to the revenue sharing threshold and cap set forth in Section 6 of this Agreement.

Stipulation and Settlement Agreement, Paragraph 12.b.

4. Under Paragraph 12.a of the Stipulation and Settlement Agreement, the parties to Docket No. 050078-EI also agreed to allow the recovery of PEF's Hines Unit 4 revenue requirements in base rates pursuant to the following conditions:

> Beginning on the commercial in-service date of Hines Unit 4, for which the Commission has previously granted a need determination in Order PSC-04-1168-FOF-EI, PEF will further increase its base rates to recover the full revenue requirements of (a) the installed cost of Hines Unit 4 subject to the limitations of Rule 25-22.082(15), F.A.C., and (b) the unit's non-fuel operating expenses. The revenue requirements of the unit will be calculated using an 11.75% ROE and the capital structure as set forth in the test year MFR Schedule D-1a filed by PEF in Docket No. 050078-EI. Such base rate increase shall be established by the application of a uniform percentage increase to the demand and energy charges of the Company's base rates including delivery voltage credits, demand credits, power factor adjustment and premium distribution service, and using billing determinants as filed by PEF in Docket No. 050078-EI, and set forth in Exhibit 1, Attachment C to this Agreement. Beginning on the commercial in-service date of Hines Unit 4, such amounts shall be added to the revenue sharing threshold and cap set forth in Section 6 of this Agreement.

Stipulation and Settlement Agreement, Paragraph 12.a.

5. Pursuant to the terms of the Stipulation and Settlement Agreement, the revenue requirements for Hines Unit 2 and Hines Unit 4 will be $36.3 million and $52.4 million respectively.

6. PEF anticipates Hines Unit 4 to begin commercial operations on December 1, 2007. Accordingly, PEF requests that its rates be adjusted on the first billing cycle following that in-service date to reflect the increase. Similarly, PEF's fuel charge will be reduced to reflect the transfer of Hines Unit 2's costs from the Fuel Clause to base rates.

Hines Unit 2

7. In Order No. PSC-01-0029-FOF-EI, the Commission granted PEF's petition for a determination of need to construct the Hines Unit 2 natural gas fired combined cycle power plant located at PEF's Hines Energy Complex in Polk County. That plant began commercial operation in December 2003. Under the terms of a stipulation and settlement agreement of PEF's 2002 rate case, which the Commission approved in Order No. PSC-02-0655-AS-EI, PEF was authorized to collect the costs of its Hines Unit 2 power plant through the Fuel Clause. PEF has been collecting the costs of the plant through the Fuel Clause since the Commission's approval of the 2002 stipulation and settlement agreement. As noted above, under Order No. PSC-05-0945-S-EI, PEF is allowed to transfer cost recovery of Hines Unit 2 from the Fuel Clause to base rates upon commercial operation of Hines Unit 4.

Hines Unit 4

8. In 2003, PEF identified a need for approximately 500MW in the late 2007 time frame. PEF performed detailed analyses and identified the Hines 4 self build option as its potential next planned generating alternative to meet PEF's demand for energy. PEF tested its self build option against other generating and non-generating alternatives, including the issuance of a request for proposals ("RFP") pursuant to Rule 25-22.082, F.A.C. (the "Bid Rule"). Through the RFP, PEF solicited competitive proposals to its Hines Unit 4 self build option. PEF received proposals from four bidders. After performing detailed technical and economic evaluations, PEF determined that Hines Unit 4 was the most cost-effective and least cost generating alternative. The detailed economic analysis established that the Hines Unit 4 plant was $55 million less expensive (in 2004 dollars) than the least cost proposal received by PEF.

The least cost new unit proposal (another combined cycle plant) was found to be more than $95 million (in 2004 dollars) more expensive than the planned cost of Hines 4.

9. On August 5, 2004, PEF filed its petition for determination of need for the Hines Unit 4 plant with the Commission. The Need Petition provided the estimated cost of the Hines 4 generating plant to be $248.5 million, including Allowance for Funds Used During Construction ("AFUDC"). PEF estimated the costs for the transmission facilities associated with the plant to be $37.6 million, including AFUDC. The Commission granted PEF's need petition on November 23, 2004. See Order No. PSC-04-1168-FOF-EI.

10. PEF commenced plant construction in December 2005 and expects to begin commercial operation on December 1, 2007. In addition, PEF initiated transmission siting work in 2003 and anticipates completion of the necessary Hines-West Lake Wales 230 kV line by December 1, 2007

11. PEF expects the final generating plant costs to be approximately $267 million versus the $248.5 million estimate in the need case. PEF expects the final transmission costs to be $60.1 million versus the need estimate of $37.6 million. Even with the roughly 14% overall increase, Hines 4 will cost less than the next lowest cost proposal that PEF received in response to its 2003 RFP. Even with the increased costs of Hines 4, the plant will be less costly than the least cost proposal and the lowest cost new unit proposal received by PEF in response to its 2003 RFP, and, as such, Hines 4 still represents the most cost effective alternative for meeting the needs of PEF customers.

12. PEF's Hines Unit 4 need petition was the first filed under the new, amended "Bid Rule," which the Commission adopted in Order No. PSC-03-0653-FOF-EQ on May 23, 2003.

Under that rule, if the public utility selects a self-build option, costs in addition to those identified in the need determination are recoverable if the utility "can demonstrate that such costs were prudently incurred and due to extraordinary circumstances." Rule 25-22.082(15), F.A.C. In adopting that language, the Commission clarified that this subsection "codifies the existing procedures regarding cost recovery of a power purchase agreement or a self-build option." PSC Order No. PSC-03-0133-FOF-EQ (Jan. 27, 2003). Commissioner Baez, who proposed the language during the Special Agenda Conference where the Commission ultimately adopted the rule, also indicated that "extraordinary circumstances" was a concise way of saying "unforeseen and beyond [the utility's] control." See Docket No. 020398-EQ, Special Agenda Transcript (Jan. 3, 2003) at p. 128.

13. PEF's costs in excess of its estimate in the 2004 need petition were prudently incurred and due to extraordinary circumstances. From the time PEF issued its RFP, filed its need case, and received Commission approval to build the plant, commodity and labor prices increased extraordinarily. For example, PEF's constructor S&B/Bibb raised its price $8 million over its Hines Unit 3 price to account for this risk. Although PEF took reasonable steps to minimize the increases following the filing of the need case and the issuance of the RFP, for example, executing a lump sum fixed price contract with S&B/Bibb to construct the plant, it still saw unprecedented increases in owner controlled items. For example, in 2004 alone, steel and copper prices increased by 30% and 40% respectively. Given the increased demand in skilled work forces for power plants and other large construction projects around the world, labor prices also increased during that same time. Because PEF had prudently factored in escalation based on historical rates, the extraordinary amount of increases in 2004-2006 costs was beyond PEF's control and unforeseen by PEF.

14. With respect to transmission, most other bidders, would have incurred similar costs, which would have been passed through to PEF. This fact notwithstanding, PEF reasonably based its estimates at the time of the RFP and need petition on its most recent transmission projects it had completed in 2001 and 2002, including labor and material estimates, land acquisition costs, and the number of eminent domain proceedings usually required for similar projects. From the time PEF completed these initial estimates in 2003 to the time it went out for executed contracts in 2006, labor estimates of $5 million had increased to contracted costs of $14 million; nearly three times the initial estimated cost. These increases were primarily because of the limited availability of contractors due to large public and private sector construction projects throughout the country, and a high demand for transmission line contractors due to prior hurricane seasons. In addition, PEF saw significant increases in fuel and commodity costs following the need filing and approval. For example, PEF based its initial estimates on its most recent Vandolah-Whidden 230kV transmission construction project. At that time, PEF paid $0.74/lb for steel used to make poles and other equipment. At the time PEF contracted for the Hines 4 transmission work, the cost of steel had increased by nearly eighty percent. Similarly, the cost to acquire rights-of-way ("ROW") for transmission facilities has increased extraordinarily. This included not only the price of the ROW but the number eminent domain proceedings PEF had to initiate to acquire parcels necessary to construct the line. All of these events were clearly unforeseeable to PEF and extraordinary and should be recoverable.

WHEREFORE, for the above-stated reasons, PEF respectfully requests that the Commission:

(1) grant PEF's petition;

(2) approve the transfer of Hines Unit 2 from the Fuel Clause to base rates upon the commercial operation of Hines Unit 4;

(3) approve the requested revenue requirements for Hines Unit 2 to be included in base rates effective on the first billing cycle following the commercial operation of Hines Unit 4; and

(4) approve the inclusion of the requested revenue requirements of Hines Unit 4 into base rates effective the first billing cycle following the commercial in-service date of Hines Unit 4.

Respectfully submitted,

R. Alexander Glenn LMS

R. Alexander Glenn
Deputy General Counsel-Florida
John T. Burnett
Associate General Counsel
Progress Energy Service Company, LLC
Post Office Box 14042
St. Petersburg, Florida 33733-4042
Phone (727) 820-5587 / Fax: (727) 820-5249

Attorneys for
PROGRESS ENERGY FLORIDA, INC.