

ORIGINAL

Hopping Green & Sams

Attorneys and Counselors

June 1, 2007

RECEIVED-PEF80
07 JUN -1 PM 2:21
COMMISSION
CLERK

BY HAND-DELIVERY

Blanca Bayó
Director, Division of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Docket No. 070007-EI

Dear Ms. Bayó:

On behalf of Progress Energy Florida, Inc. (PEF), I enclose for filing in the above docket the original and fifteen (15) copies of the following:

- PEF's Supplemental Petition for Approval of Integrated Clean Air Compliance Plan and Associated Crystal River Clean Air Contracts;
- A redacted copy of the confidential Pre-filed Direct Testimony of Thomas Cornell, along with Exhibit Nos. __ (TC-1 and TC-2) and redacted copies of confidential Exhibit Nos. __ (TC-3, TC-4, TC-5, TC-6, TC-7 and TC-8); and
- A redacted copy of the confidential Pre-filed Direct Testimony of Samuel S. Waters, along with redacted copies of confidential Exhibit Nos. __ (SSW-1, SSW-2, and SSW-3), and Exhibit Nos. __ (SSW-4 and SSW-5).

Unredacted copies of the confidential testimony and exhibits are being submitted separately with a Request for Confidential Classification.

CMP _____ By copy of this letter, the enclosed documents have been furnished to the parties on the
COM 5 attached certificate of service.

CTR _____ 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 give one of
ECR 1 us a call at 222-7500.

GCL 1

OPC _____

RCA 2

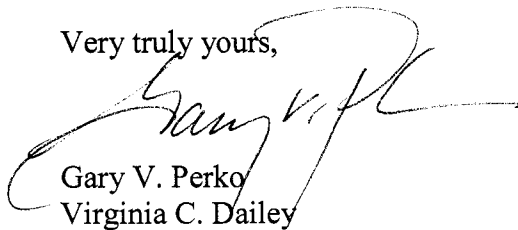
SCR _____

SGA _____

SEC _____

OTH Kim cc: Certificate of Service

Very truly yours,



Gary V. Perko
Virginia C. Dailey

Attorneys for PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NUMBER - DATE

04475 JUN-15

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of Progress Energy Florida's Petition for Approval of Integrated Clean Air Compliance Plan and Associated Crystal River Contracts, along with the direct testimony of Thomas Cornell and Samuel Waters, filed in Docket No. 070007-EI, have been furnished by hand-delivery (*) or regular U.S. mail to the following this 12 day of June, 2007.

Martha Carter Brown*
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Joseph McGlothlin, Esq.
Office of Public Counsel
111 West Madison Street, Rm. 812
Tallahassee, FL 32399

Lee L. Willis, Esq.
James D. Beasley, Esq.
Ausley Law Firm
P.O. Box 391
Tallahassee, FL 32302

Jeffrey A. Stone, Esq.
Russell A. Badders, Esq.
Beggs & Lane Law Firm
P.O. Box 12950
Pensacola, FL 32591-2950

Florida Industrial Power Users Group
John W. McWhirter, Jr.
c/o McWhirter Reeves & Davidson
400 North Tampa Street, Suite 2450
Tampa, FL 33602

R. Scheffel Wright
John LaVia
Young Law Firm
225 South Adams Street, Suite 200
Tallahassee, FL 32301

Florida Power & Light Co.
R. Wade Litchfield, Esq.
John T. Butler, Esq.
700 Universe Blvd.
Juno Beach, FL 33408-0420

Florida Retail Federation
John Rogers
Post Office Box 10024
Tallahassee, FL 32302

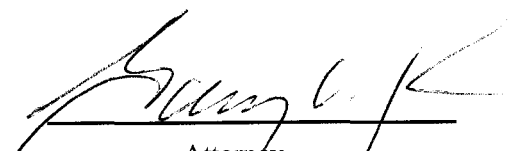
Florida Power & Light Co.
Bill Walker
215 S. Monroe Street, Suite 810
Tallahassee, FL 32301

R. Alexander Glenn
Deputy General Counsel - Florida
Progress Energy Service Company, LLC
P.O. Box 14042
St. Petersburg, FL 33733

Gulf Power Company
Susan Ritenour
One Energy Place
Pensacola, FL 32520-0781

John T. Burnett
Associate General Counsel - Florida
Progress Energy Service Company, LLC
P.O. Box 14042
St. Petersburg, FL 33733

Tampa Electric Company
Paula K. Brown
Regulatory Affairs
P.O. Box 111
Tampa, FL 33601-0111



Attorney

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental cost recovery clause.

DOCKET NO. 070007-EI

FILED: JUNE 1, 2007

**PROGRESS ENERGY FLORIDA'S SUPPLEMENTAL PETITION FOR
APPROVAL OF INTEGRATED CLEAN AIR COMPLIANCE PLAN
AND ASSOCIATED CRYSTAL RIVER CLEAN AIR CONTRACTS**

Progress Energy Florida ("PEF" or the "Company"), hereby petitions pursuant to the Environmental Cost Recovery Clause ("ECRC"), Section 366.8255, Florida Statutes, for approval of its Integrated Clean Air Compliance Plan and associated contracts for air pollution control projects at PEF's Crystal River Units 4 and 5. PEF is requesting approval of the compliance plan and associated contracts at this time because PEF's compliance strategy has reached a point where permits have been issued and detailed design, engineering, equipment procurement, and construction must be completed to meet necessary in-service dates for the Crystal River projects. The Integrated Compliance Plan is PEF's most cost-effective means of implementing the Clean Air Interstate Rule ("CAIR") and Clean Air Mercury Rule ("CAMR") compliance program previously approved in Order No. PSC-05-0998-PAA-EI. Moreover, the associated Crystal River contracts are designed to ensure timely compliance while minimizing the risk of potential cost increases to PEF and its customers. Accordingly, the Commission should approve PEF's compliance plan and the Crystal River contracts as reasonable and prudent action to achieve and maintain compliance with CAIR, CAMR, and related regulations.

In further support of this Petition, Progress Energy states:

DOCUMENT NUMBER-DATE

04475 JUN-15

FPSC-COMMISSION CLERK

PRELIMINARY INFORMATION

1. Progress Energy Florida 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.

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

Gary V. Perko
Virginia C. Dailey
Hopping Green & Sams, P.A.
Post Office Box 6526
Tallahassee, FL 32314

R. Alexander Glenn
Deputy General Counsel - Florida
Progress Energy Service Company, LLC
Post Office Box 14042
St. Petersburg, FL 33733

BACKGROUND

3. On May 6, 2005, PEF petitioned for recovery through the ECRC of the costs incurred to comply with the newly adopted CAIR, which limits emissions of sulfur dioxide (“SO₂”) and nitrous oxides (“NO_x”), and the newly adopted CAMR, which limits emissions of mercury. In Order No. PSC-05-0998-PAA-EI issued in Docket No. 050316-EI, the Commission granted PEF’s petition, holding that costs for complying with the new rules are eligible for recovery through the ECRC subject to PEF’s demonstration that costs for specific projects are reasonable and prudent as they are submitted for recovery in the annual ECRC proceedings.

PEF’S INTEGRATED CLEAN AIR COMPLIANCE PLAN

4. In last year’s annual ECRC proceeding (Docket No. 060007-EI), PEF submitted a report and supporting testimony presenting its Integrated Clean Air Compliance Plan, as well as the process PEF utilized in developing and evaluating five alternative plans. Based on the analysis of alternative plans, PEF determined that the integrated compliance plan, designated in

the report as Plan D, was the most cost-effective alternative for achieving and maintaining compliance with CAIR, CAMR, and the Clean Air Visibility Rule (“CAVR”), which had been adopted after PEF’s original petition. The Plan achieves compliance and meets PEF’s planning objectives by striking a balance between reducing emissions by, among other things, adding Selective Catalytic Reduction (“SCR”), low NOx burner (“LNB”), and Flue Gas Desulfurization (“FGD”) controls to Crystal River Units 4 and 5, the largest and newest coal units on the PEF system, and making limited use of allowance markets. In the final order in last year’s annual ECRC proceeding, the Commission found that the costs incurred by PEF for CAIR/CAMR compliance in 2005 and 2006 are reasonable and prudent. Order No. PSC-06-0927-FOF-EI, at p. 7, issued on November 22, 2006 in Docket 060007-EI, In re: Environmental Cost Recovery Clause.

5. To keep the Commission apprised of ongoing developments, PEF is submitting with this Petition an updated Integrated Clean Air Compliance Plan report, along with pre-filed direct testimony of Thomas Cornell and Samuel Waters. The report and supporting testimony describe the status of PEF’s implementation of its compliance plan and present updated economic analyses based on changes to the five alternative plans analyzed last year, a new alternative plan (designated Plan F), and updated cost estimates. Consistent with the approach utilized in 2006, PEF has performed a quantitative evaluation to compare the ability of the modified alternative plans to meet environmental requirements, while managing risks and controlling costs. This analysis demonstrates that Plan D, as revised, still represents PEF’s most cost-effective alternative for achieving and maintaining compliance with CAIR, CAMR, and CAVR, and related regulatory requirements.

6. Because compliance planning is a dynamic process, PEF will continue to evaluate compliance options in light of changed circumstances and will adjust the Integrated Clean Air Compliance Plan accordingly. However, PEF must complete major design, engineering, equipment procurement and construction activities to place the Crystal River Units 4 and 5 SCR, LNB, and FGD controls in service in time to meet the approaching initial CAIR compliance deadlines of 2009 for NO_x and 2010 for SO₂. In order meet the necessary in-service dates, PEF has begun contracting with qualified vendors for the design, engineering, equipment procurement, and construction activities due to the long engineering and construction lead times involved in those projects.

CRYSTAL RIVER CLEAN AIR CONTRACTS

7. As discussed in Mr. Cornell's testimony, PEF has established a detailed organizational structure to ensure prudent decision-making and project oversight as implementation of the Integrated Clean Air Compliance Plan proceeds. In addition to ensuring timely and safe implementation of the various construction projects, this organizational structure will enable the Company to monitor costs against detailed project scopes to ensure that PEF receives what it contracted for and that any scope changes are properly evaluated and documented.

8. Mr. Cornell's testimony describes the process the Company has undertaken to select qualified vendors and to negotiate appropriate technical and commercial terms. Because there have been significant increases in costs for major construction projects, especially for SCR and FGD installations, since the adoption of CAIR, a key goal of the Company's contracting strategy is to minimize the risk of future cost increases to PEF and its customers and to allocate risk where it can best be managed. For Crystal River, the primary component of that strategy is the

utilization of an Engineering, Procurement, and Construction (“EPC”) contract with a joint venture (Environmental Partners Crystal River or “EPCR”) which includes the primary engineering and construction contractors. In light of the observed cost increases, PEF decided to bid the Crystal River work under an open book conversion to lump sum EPC format that would establish a firm, lump sum price for the work, rather than under an open-ended “time-and-materials” contract structure. Under this approach, the scope and costs for project components are being identified in detail to provide greater certainty in the final cost of the Crystal River projects.

9. In November 2006, following a detailed review of the EPCR proposal and an evaluation of the capabilities of the EPCR partners, the parties executed a Letter of Intent (LOI) to provide time for PEF to further define the scope of the project so that detailed pricing could be developed and evaluated. Due to the extensive nature of the work involved, the LOI has been extended and revised to provide a framework for the ongoing negotiations as well as the basis for preliminary engineering, procurement and initial site-related activities necessary to progress toward meeting the in-service dates of the Crystal River projects. (A copy of the LOI and amendments are being submitted in a composite exhibit to Mr. Cornell’s testimony). The amended LOI provides an expiration date of June 30, 2007, by which time the parties anticipate having a contract in place. Upon execution, PEF will submit the EPC contract for the Commission’s review and approval.

10. In order to ensure that PEF meets the CAIR/CAMR compliance deadlines, the Company has entered into contracts with other vendors for preliminary design, engineering and other activities associated with the Crystal River projects. In addition, for certain project components with long-lead times, the Company has contracted with other qualified vendors for

the design, manufacture and assembly of critical equipment, including two FGD Absorber Towers, the SCR catalyst, and a Flue Gas Chimney. These contracts are summarized in and provided as exhibits to Mr. Cornell's testimony. As Mr. Cornell explains, each of these vendors was selected based on competitive bidding and/or prior experience on similar Progress Energy projects. In addition, the contracts include terms designed to ensure timely and safe performance while minimizing the risk of potential cost increases to PEF and its customers.

CONCLUSION

11. As discussed above and in the testimony and exhibits submitted with the Petition, PEF's Integrated Clean Air Compliance Plan is the most cost-effective alternative for complying with CAIR, CAMR, CAVR and related regulations. It also manages risks and provides flexibility by striking a good balance between reducing emissions and making limited use of allowance markets. In addition, the Company has pursued an aggressive scoping assessment and contracting strategy that has enabled PEF to negotiate contract terms for the Crystal River Unit 4 and 5 projects that will mitigate the risk of price increases to the Company and its customers without jeopardizing construction time-frames necessary to ensure timely compliance with the applicable regulatory requirements. For these reasons, the Commission should approve the Crystal River contracts as reasonable and prudent action by the Company to ensure compliance with CAIR, CAMR and CAVR. Such approval would be consistent with prior Commission orders in which the Commission has approved significant contracts submitted in annual cost recovery proceedings. See e.g., Order No. PSC-05-1252-FOF-EI, at p. issued on December 23, 2005 in Docket No. 050001-EI, In re: Fuel and purchase power cost recovery clause (granting PEF's petition for approval of its waterborne coal transportation service contracts.).

WHEREFORE, Progress Energy Florida respectfully requests that the Commission enter an order approving the prudence and reasonableness of the Company's Integrated Clean Air Compliance Plan and the contracts identified above for purposes of cost recovery through the Environmental Cost Recovery Clause. Consistent with prior Commission practice, recovery of costs incurred pursuant to the contracts would be permitted subject to a finding reasonableness and prudence at the time the expenses are presented for cost recovery in this ongoing docket.

Respectfully submitted, this 1st day of June, 2007.

R. Alexander Glenn
Deputy General Counsel - Florida
Progress Energy Service Co., LLC
Post Office Box 14042
St. Petersburg, FL 33733
alex.glenn@pgnmail.com



Gary V. Perko
Florida Bar No. 855898
Virginia C. Dailey
Florida Bar No. 419168
Hopping Green & Sams, P.A.
Post Office Box 6526
Tallahassee, FL 32314
Tel.: (850) 222-7500
Fax: (850) 224-8551
gperko@hgslaw.com
vdailey@hgslaw.com

Attorneys for PROGRESS ENERGY FLORIDA, INC.