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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Progress Energy Florida, Inc.
to recover costs of Crystal River Unit 3
uprate through fuel clause

Docket No. 070052-EI

Submitted for Filing: July 9, 2007

**PROGRESS ENERGY FLORIDA, INC.'S
PREHEARING STATEMENT**

Progress Energy Florida, Inc. ("PEF" or the "Company") hereby submits its Prehearing
Statement in this matter, and states as follows:

A. APPEARANCES:

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SEC _____
OTH _____

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B. WITNESSES AND EXHIBITS:

In identifying witnesses and exhibits herein, PEF reserves the right to call such other witnesses and to use such other exhibits as may be identified in the course of discovery and preparation for the final hearing in this matter.

1. WITNESSES.

Amended Direct Testimony.

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
Daniel L. Roderick	Description of the CR3 Uprate, reasons for establishing earlier, third phase of Uprate project, the estimated costs for each phase of the CR3 Uprate project	1
Samuel S. Waters	The benefits of the CR3 Uprate including the estimated fuel savings generated by each phase of the CR3 Uprate, and the fuel diversity and reliability created with the CR3 Uprate	1
Javier Portuondo	The increased fuel savings, diversity, and reliability achieved through the CR3 Uprate, the recovery of the CR3 Uprate costs through the fuel cost recovery clause under Commission Orders including Order 14546	1 – 7

Rebuttal Testimony.

PEF notes that it expects to file rebuttal testimony for the following witnesses related to the following subject matters. However, PEF's rebuttal testimony is not due until July 19. As such, PEF reserves the right to amend its prehearing statement to reflect any additional witnesses, subject matters, or exhibits that it includes in the as-filed rebuttal testimony.

<u>Witness</u>	<u>Subject matter</u>	<u>Issues</u>
Daniel L Roderick	Rebuttal of issues raised by OPC Witnesses Merchant and Lawton and FIPUG Witness Pollock	1

Javier Portuondo

Rebuttal of issues raised by OPC
Witnesses Merchant and Lawton and
FIPUG Witness Pollock

1-7

2. EXHIBITS.

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
JP-1	Portuondo	Excerpt of Schedule B-13 of Minimum Filing Requirement submitted in Docket No. 050078-EI
JP-2	Portuondo	Excerpt of Schedule B-2 of Minimum Filing Requirement submitted in Docket No. 050078-EI
JP-3	Portuondo	Excerpt of Schedule B-1 of Minimum Filing Requirement submitted in Docket No. 050078-EI
DLR-1	Roderick	Aerial view of Crystal River Complex, including CR3
DLR-2	Roderick	Photo of primary plant configuration for pressurized water reactor nuclear plant at CR3 that shows major components of nuclear reactor and primary coolant system
DLR-3	Roderick	Schematic of major components in primary system and balance of nuclear plant that shows major components in secondary systems, including main turbine and main generator
Amended SSW-1	Waters	Amended Summary of Annual Fuel Savings of Proposed Power Upgrade to CR3

D. PEF'S STATEMENT OF BASIC POSITION:

PEF seeks a determination that the costs of the CR3 Uprate should be recovered through the fuel cost recovery clause ("fuel clause"), pursuant to Commission Orders including Order Number 14546. The CR3 Uprate will provide PEF's customers substantial fuel savings expected to be in excess of \$2.6 billion with an expected net present value of the savings to costs of \$320 million to PEF's retail customers. The CR3 Uprate achieves these savings by displacing fossil fuel and purchased power costs from fossil fuel generation with additional nuclear generation, thus, further enhancing fuel diversity on PEF's system. Indeed, this Commission determined in Order Number PSC-07-0119-FOF-EI, the CR3 Uprate is not needed for reliability but rather to achieve fuel cost savings and fuel diversity.

The Commission has long sought to encourage innovative utility projects that reduce fossil fuel costs to customers by providing the ability for cost recovery under the Fuel Clause. The CR3 Uprate is such a project. The Company pursued the CR3 Uprate because it provided significant fuel savings to customers and not because additional growth in customers or customer usage provided the revenues to pay for the costs of the project. The Company pursued the CR3 Uprate under Order 14546 because the project's substantial fuel savings offset the project's costs and recovery was appropriate under the Commission's order.

In Order 14546 the Commission determined that cost recovery under the Fuel Clause is authorized when the costs (1) were not anticipated and included in current base rates and (2) the costs generate fuel savings for customers. In fact, the Commission authorized Florida Power & Light to recover the capital costs of its thermal uprate to its nuclear plant under Order 14546 because the costs generated fuel savings and were not included in base rates. The costs of the CR3 Uprate Project were not anticipated and they are not included in the Company's current base rates and the CR3 Uprate generates substantial fuel savings for PEF's customers. The Commission should, therefore, grant PEF's petition requesting that the Commission find that the CR3 Uprate costs are eligible for cost recovery under the Fuel Clause.

No one can or does dispute that the CR3 Uprate project benefits PEF's customers. Interveners add terms or tests to Order 14546 that are nowhere found in the Commission's Order providing for cost recovery under the Fuel Clause for capital costs not included in base rates that are incurred to generate fuel savings to customers. There is no requirement nor could there be that the costs "not recognized or anticipated in the cost levels used to determine current base rates" should be "volatile" or recoverable in future base rates and there is no "earnings" test under Order 14546. Interveners want to change the Commission's policy in Order 14546 to not apply it to PEF's petition.

Indeed, if the Commission accepted Interveners' interpretation of Order 14546, it would render the policy set forth in Item 10 meaningless. Interveners argue that PEF can ask for a new base rates proceeding to recover these costs. But PEF always has the ability to initiate a new base rates proceeding. In fact, it could have initiated base rates proceedings in the former cases where PEF requested recovery of the conversion costs for its peaker units. But this Commission wanted to encourage projects that result in fuel savings by allowing recovery, under Item 10, through the fuel clause. In this case, PEF was encouraged by this policy to do this uprate for the significant fuel savings.

PEF's petition is not precluded by the 2005 rate case settlement. This is not a new surcharge but a request for recovery under an existing cost recovery clause under established Commission policy recognizing such recovery. Nothing in the 2005 rate case settlement agreement precludes such recovery under existing cost recovery clauses including Order 14546. Moreover, because the project costs are offset by expected fuel savings there is no surcharge at all to the customer.

Interveners challenge PEF's cost and fuel savings estimates without proffering their own estimates or any reason to believe that PEF's costs and fuel savings estimates are not reasonable. The fact that actual costs might change does not mean PEF's estimates are not reasonable and ignores the fact that PEF's net fuel savings to costs are estimated at \$320 million. PEF has reasonably demonstrated that the fuel savings exceed all elements of the Uprate costs. Interveners also argue that some of the Uprate's project costs, for example, transmission upgrades, should be denied recovery but they ignore that these costs would not have been incurred without the CR3 Uprate. They are, therefore, necessarily a part of the Uprate project.

PEF's request for cost recovery under the Fuel Clause tracks the Commission's treatment of the recovery and allocation of costs of other capital projects that were recovered through the fuel clause under Order 14546. In any event, PEF is seeking a determination that the Uprate costs are eligible for recovery under the Fuel Clause under Order 14546 and that the actual period of cost recovery will depend on the demonstrated fuel savings. Similarly, the actual recovery of PEF's project costs will be subject to a determination that they are reasonable and prudent as they are incurred and subject to inclusion in the Fuel Clause.

For all these reasons, as more fully developed in PEF's pre-filed amended testimony and exhibits, PEF respectfully requests that the PSC grant the recovery of the costs of the CR3 Uprate through the fuel clause.

E. PEF'S STATEMENT OF ISSUES AND POSITIONS:

1. FACTUAL ISSUES.

ISSUE 1: Should the Commission authorize clause recovery of the prudent and reasonable costs of the following:

PEF Position:

Yes, the CR3 Uprate costs (1) are not recognized or anticipated in the cost levels used to determine PEF's current base rates and (2) the costs generate fuel savings for customers. Thus the project satisfies the requirements of Order 14546, which creates an ability for utilities to incur costs to generate fuel savings. Recovery through the fuel clause for all the CR3 Uprate costs, consistent with PEF's position to Issue 3 below, should therefore be granted. (Portuondo, Roderick, Waters)

A. Phase 1 of PEF's CR3 Uprate Project?

PEF Position:

The costs associated with Phase 1, or the MUR phase, of the CR3 Uprate project should be recovered through the fuel clause, consistent with PEF's position to Issue 3 below. This phase satisfies Order 14546. Order 14546 does not contain an "earnings test" so it is irrelevant whether PEF could absorb these costs in base rates without affecting its rate of return. (Portuondo, Roderick, Waters)

B. Phase 2 of PEF's CR3 Uprate Project?

PEF Position:

The costs associated with Phase 2 of the CR3 Uprate project should be recovered through the fuel clause, consistent with PEF's position to Issue 3 below. This phase satisfies Order 14546. Order 14546 does not contain an "earnings test" so it is irrelevant whether PEF could absorb these costs in base rates without affecting its rate of return. (Portuondo, Roderick, Waters)

C. Phase 3 of PEF's CR3 Uprate Project, including:

1. Nuclear Core Modifications, Secondary Systems, and Other Project-related Plant Additions/Modifications?

PEF Position:

The Nuclear Core Modifications, Secondary Systems, and Other Project-related Plant Additions/Modifications costs should be recovered through the fuel clause, consistent with PEF's position to Issue 3 below. These

costs satisfy Order 14546. The Commission did not limit the types of costs that could be recovered pursuant to Order 14546, as long as they were not recognized or anticipated in the utility's current base rates and generated fuel savings. (Portuondo, Roderick, Waters)

2. The "point of discharge" cooling solution?

PEF Position:

The "point of discharge" cooling solution costs should be recovered through the fuel clause, consistent with PEF's position to Issue 3 below. These costs satisfy Order 14546. The Commission did not limit the types of costs that could be recovered pursuant to Order 14546, as long as they were not recognized or anticipated in the utility's current base rates and generated fuel savings. In addition, the cooling solution changes must be made as a direct result of the increased MW output of CR3. (Portuondo, Roderick, Waters)

3. Transmission upgrades associated with the CR3 Uprate Project?

PEF Position:

The transmission upgrade costs should be recovered through the fuel clause, consistent with PEF's position to Issue 3 below. These costs satisfy Order 14546. The Commission did not limit the types of costs that could be recovered pursuant to Order 14546, as long as they were not recognized or anticipated in the utility's current base rates and generated fuel savings. In addition, the transmission upgrades must be made as a direct result of the increased MW output of CR3. (Portuondo, Roderick, Waters)

4. Other costs associated with phase 3 of the CR3 Uprate Project?

PEF Position:

All other costs associated with phase 3 should be recovered through the fuel clause, consistent with PEF's position to Issue 3 below. These costs satisfy Order 14546. The Commission did not limit the types of costs that could be recovered pursuant to Order 14546, as long as they were not recognized or anticipated in the utility's current base rates and generated fuel savings. (Portuondo, Roderick, Waters)

ISSUE 2: If the Commission authorizes clause recovery of the CR3 Uprate Project, which cost recovery clause, fuel or capacity, is appropriate for capitalized costs attributable to the uprate?

PEF Position:

The recovery of PEF's costs for the uprate should be through the same clause in which savings will materialize, so that no particular class of customer is harmed or benefited by the allocation. Allocation of fuel savings will be through the fuel clause, so the costs must be allocated the same way. (Portuondo)

ISSUE 3: If the Commission authorizes clause recovery of the CR3 Uprate Project, what capital recovery periods should the Commission prescribe for the assets?

PEF Position:

Consistent with past Commission precedent and policy, PEF should be authorized to recover through the fuel adjustment clause the amortization of capital costs and a return on capital at their current pretax weighted average cost of capital (WACC) of the project amortized over a period for which the demonstrated fuel savings exceed the amortization and pretax WACC return of the project. (Portuondo)

ISSUE 4: Based on the recovery periods prescribed for the CR3 Uprate Project assets, what ratemaking adjustments, if any, are necessary?

PEF Position:

No rate making adjustments are necessary. Consistent with Commission treatment in past petitions of this nature, PEF proposes fuel clause recovery of the amortization of capital investment and the return on that capital investment at the pretax weighted average cost of capital last authorized by the commission. As such these investment costs would not be included in the calculation of base rates during the period over which recovery is occurring through the fuel clause. (Portuondo)

ISSUE 5: If the Commission authorizes PEF clause recovery of the CR3 Uprate Project, what return on investment should the Commission authorize PEF to include?

PEF Position:

Consistent with the Commission's past decisions that have allowed recovery of capital costs through the fuel clause pursuant to Order 14546, PEF proposes to recover a return on investment of its current pretax weighted average cost of capital. (Portuondo)

ISSUE 6: If the Commission authorizes clause recovery of the CR3 Uprate Project, how should the costs associated with the project be allocated between wholesale and retail jurisdictions for rate recovery purposes?

PEF Position:

To the extent that the joint owners of CR3 agree to pay for a portion of the costs associated with the CR3 uprate, PEF will reduce its cost recovery request accordingly. Likewise, the net fuel savings benefits will be allocated proportionately among the joint owners, depending on the percentage of costs each owner bears. (Portuondo)

ISSUE 7: If the Commission authorizes clause recovery of the CR3 Uprate Project, what reports, if any, should PEF be required to file reports with the Commission?

PEF Position:

Consistent with PEF's past practice associated with the Commission's approval of past requests, the Company will attach an exhibit to its testimony each year in the fuel clause, which will show the calculation of fuel savings and costs of the project. (Portuondo)

ISSUE 8: Should this docket be closed?

PEF Position:

Yes, this docket should be closed.

2. LEGAL ISSUES.

None at this time.

3. POLICY ISSUES.

None at this time.

F. STIPULATED ISSUES.

None at this time.

G. PENDING MOTIONS.

None at this time.

H. PEF'S REQUESTS FOR CONFIDENTIAL CLASSIFICATION.

PEF's First Request for Confidential Classification, filed June 7, 2007

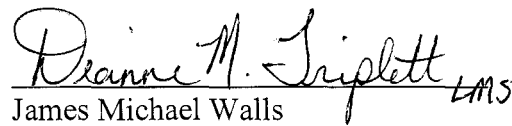
PEF's Second Request for Confidential Classification, filed June 20, 2007.

I. REQUIREMENTS OF PREHEARING ORDER THAT CANNOT BE MET.

None.

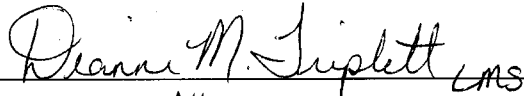
Respectfully submitted this 9th day of July, 2007.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Progress Energy Florida, Inc.'s Notice of Service in Docket No. 070052-EI has been furnished via electronic transmission and by regular U.S. mail to the following this 9th day of July, 2007.


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