

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: October 16, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Slemkewicz, Laux, Springer, Draper)
Office of the General Counsel (Sayler)

Handwritten initials: JS, MRL, ESD, CH, ALM, JSB, [circled initials]

RE: Docket No. 080603-EI – Petition for expedited Commission approval of base rate increase for costs associated with MUR phase of CR3 uprate project, pursuant to Section 366.93(4), F.S. and Rule 25-6.0423(7), F.A.C., by Progress Energy Florida, Inc.

AGENDA: 10/28/08 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 11/18/08 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080603.RCM.DOC

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COMMISSION CLERK

Case Background

In 2006, the Florida Legislature adopted legislation, Section 366.93, Florida Statutes (F.S.), encouraging the development of nuclear energy in the state. In that section, the Legislature directed the Commission to adopt rules providing for alternate cost recovery mechanisms that would encourage investor-owned electric utilities to invest in nuclear power plants. The Commission adopted Rule 25-6.0423, Florida Administrative Code (F.A.C.), which provides for an annual clause recovery proceeding to consider investor-owned utilities' requests for cost recovery for nuclear plants.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

This Commission granted PEF's need determination for the Crystal River 3 (CR3) Uprate on February 8, 2007.¹ Once completed, the CR3 Uprate will provide an additional 180 MW of nuclear generation. The CR3 Uprate will be accomplished in three phases.²

Phase 1, the Measurement Uncertainty Recapture (MUR) phase, was completed during the 2007 refueling outage and went online on January 31, 2008. It resulted in the addition of approximately 12 megawatts of nuclear generation to PEF's system. The reasonableness and prudence of the construction expenditures related to each phase of the CR3 Uprate project are subject to review in Docket No. 080009-EI.³ On September 19, 2008, PEF filed a petition to increase its base rates by the \$1,297,979 revenue requirements associated with the MUR phase of the CR3 Uprate project pursuant to Rule 25-6.0423(7), F.A.C. PEF has requested expedited approval of its petition so that the new base rates can become effective with the first billing cycle for January 2009.

This Commission has jurisdiction over this subject matter pursuant to the provisions of Section 366.93, F.S. and other provisions of Chapter 366, F.S.

¹Order No. PSC-07-0119-FOF-EI, issued February 8, 2007, in Docket No. 060642-EI, In re: Petition for determination of need for expansion of Crystal River 3 nuclear power plant, for exemption from Bid Rule 25-22.082, F.A.C., and for cost recovery through fuel clause, by Progress Energy Florida, Inc.

²Phase 1 – Measurement Uncertainty Recapture; Phase 2 – Balance of Plant; and Phase 3 – Extended Power Uprate.

³Docket No. 080009-EI, In re: Nuclear cost recovery clause.

Discussion of Issues

Issue 1: Should the Commission approve PEF's request to increase its base rates by \$1,297,979 for the MUR phase of the CR3 Uprate project?

Recommendation: Yes. PEF's request to increase its base rates by \$1,297,979 for the MUR phase of the CR3 Uprate project should be approved. This approval should be subject to true-up and revision based on the final review of the 2008 MUR phase expenditures in Docket No. 080009-EI, Nuclear Cost Recovery Clause. (Slemkewicz, Laux, Springer)

Staff Analysis: PEF has requested approval to increase its base rates by \$1,297,979 for the MUR phase of the CR3 Uprate project. The MUR phase went into commercial service on January 31, 2008.

Rule 25-6.0423(7), F.A.C., states the following:

(7) Commercial Service. As operating units or systems associated with the power plant and the power plant itself are placed in commercial service:

(a) The utility shall file a petition for Commission approval of the base rate increase pursuant to Section 366.93(4), F.S., separate from any cost recovery clause petitions, that includes any and all costs reflected in such increase, whether or not those costs have been previously reviewed by the Commission; provided, however, that any actual costs previously reviewed and determined to be prudent in the Capacity Cost Recovery Clause shall not be subject to disallowance or further prudence review except for fraud, perjury, or intentional withholding of key information.

(b) The utility shall calculate the increase in base rates resulting from the jurisdictional annual base revenue requirements for the power plant in conjunction with the Capacity Cost Recovery Clause projection filing for the year the power plant is projected to achieve commercial operation. The increase in base rates will be based on the annualized base revenue requirements for the power plant for the first 12 months of operations consistent with the cost projections filed in conjunction with the Capacity Cost Recovery Clause projection filing.

(c) At such time as the power plant is included in base rates, recovery through the Capacity Cost Recovery Clause will cease, except for the difference between actual and projected construction costs as provided in subparagraph (5)(c)4. above.

(d) The rate of return on capital investments shall be calculated using the utility's most recent actual Commission adjusted basis overall weighted average rate of return as reported by the utility in its most recent Earnings Surveillance Report prior to the filing of a petition as provided in paragraph (7)(a). The return on equity cost rate used shall be the midpoint of the last Commission approved range for return on equity or the last Commission approved return on equity cost rate established for use for all other regulatory purposes, as appropriate.

(e) The jurisdictional net book value of any existing generating plant that is retired as a result of operation of the power plant shall be recovered through an increase in base rate charges over a period not to exceed 5 years. At the end of the

recovery period, base rates shall be reduced by an amount equal to the increase associated with the recovery of the retired generating plant.

In compliance with Rule 25-6.0423(7), F.A.C., PEF submitted its calculation of the annualized base revenue requirements for the MUR phase for the first 12 months of operations. This calculation is appended to this recommendation as Attachment A. Staff has reviewed the calculation of the \$1,297,979 jurisdictional annual revenue requirement. In staff's opinion, the annual revenue requirement calculation has been calculated in compliance with Rule 25-6.0423(7), F.A.C., and recommends approval of the \$1,297,979 base rate increase.

At the October 14, 2008, Agenda Conference, the Commission found that the 2007 expenditures for the MUR phase of the CR3 Uprate project were reasonable and prudent in Docket No. 080009-EI. However, the 2008 expenditures related to the MUR phase are still under review in Docket No. 080009-EI. A final determination of the reasonableness and prudence of the 2008 expenditures will not be made until 2009. Per Attachment A, the increase in Electric Plant in Service included in the calculation is \$8,565,344 (\$8,030,267 jurisdictional), net of joint owners. If the \$8,565,344 amount is revised based on a final audit and review of the 2008 expenditures, the annual revenue requirement will have to be recalculated. This would require a true-up of the revenues already collected and a revision of the related tariffs. Therefore, staff further recommends that the approval of the \$1,297,979 base rate increase be made subject to true-up and revision based on the final review of the 2008 MUR phase expenditures in Docket No. 080009-EI.

Issue 2: Should the Commission approve PEF's proposed tariffs and associated charges?

Recommendation: Yes. If the Commission approves Issue 1, the proposed tariffs and associated charges should go into effect with the first billing cycle in January 2009. (Draper)

Staff Analysis: As discussed in Issue 1, PEF has proposed to increase its base rate energy charges by \$1,297,979. PEF allocated this amount to the various rate classes based on the 12 Coincident Peak (CP) and 1/13 Average Demand methodology, which is the current Commission-approved methodology to allocate production demand costs to rate classes. This methodology essentially allocates costs to the rate classes based on the average of their monthly contribution to the system peak. The allocation of the \$1,297,979 to the rate classes is appended to this recommendation as Attachment B.

As shown in Attachment B, the residential base rate energy charge will increase by 0.004 cents per kilo-watt hour, adding 4 cents to the base rate component of the 1,000 kWh residential bill. Staff notes that PEF has proposed increases to its various cost recovery factors, including the fuel and purchased power cost recovery factor (Docket No. 080001-EI), which may have additional impacts on bills beginning in 2009. Because of this and other proposed changes, the current 1,000 kWh residential bill of \$110.59 is projected to increase to \$137.88 in January 2009.

PEF has requested that the proposed tariffs go into effect with the first billing cycle in January 2009. Staff has reviewed the proposed tariffs and calculation of the revised base rate energy charges and recommends that they be approved.

Docket No. 080603-EI
Date: October 16, 2008

Issue 3: Should this docket be closed?

Recommendation: Yes. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Saylor)

Staff Analysis: If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

Progress Energy Florida
 MUR - 1st 12 Months Revenue Requirements

(Dollars In Thousands)

Line No.		Generation		
		System	Separation Factor	Retail Jurisdictional
1	In-Service Date			
2				
3	<u>Annualized Rate Base</u>			
4	Electric Plant in Service (net of joint owners)	\$8,565,344	93.753%	\$8,030,267
5	Accumulated Reserve for Depreciation	(96,103)	93.753%	(90,100)
6	Fuel Inventory			0
7	Working Capital - Income Taxes Payable	(92,354)		(86,584)
8	Total Annualized Rate Base	<u>\$8,376,887</u>		<u>\$7,853,583</u>
9				
10	<u>Annualized NOI</u>			
11	O&M			\$0
12	Depreciation Expense	192,206	93.753%	180,199
13	Property Taxes	96,800	93.753%	90,753
14	Payroll Taxes & Benefits	0		0
15	Income Taxes -			
16	Direct Current & Deferred	(111,484)		(104,520)
17	Imputed Interest	(73,223)		(68,649)
18	Total Annualized NOI	<u>(\$104,299)</u>		<u>(\$97,783)</u>
19				
20				
21	<u>Calculation of Revenue Requirement</u>			
22	Fully Adjusted Cost of Capital (per July 2008 Surveillance)	8.89%		8.89%
23	NOI Requirement (Line 8 * Line 22)	\$744,286		\$697,791
24	NOI Deficiency (Line 23 less Line 18)	\$848,585		\$795,574
25	Net Operating Income Multiplier (MFR C-44)	1.6315		1.6315
26				
27	Revenue Requirement (Line 24 * Line 25)	<u>\$1,384,467</u>	93.75%	<u>\$1,297,979</u>
28				
29				
30				
31	<u>Calculation of Taxes on Imputed Interest</u>			
32	Weighted Cost of Debt Capital (July 2008 Surveillance):			
33	Long Term Debt Fixed Rate	2.09%		2.09%
34	Long Term Debt Variable Rate	0.00%		0.00%
35	Short Term Debt	0.03%		0.03%
36	Customer Deposits	0.14%		0.14%
37	JDIC	0.01%		0.01%
38		<u>2.27%</u>		<u>2.27%</u>
39				
40	Imputed Interest (Line 8 * Line 38)	\$189,820		\$177,962
41	Income Taxes on Imputed Interest at 38.575%	(\$73,223)		(\$68,649)

Progress Energy Florida
 CR3 Uprate - MUR Component
 Calculation of Base Rate Energy Charges Impact
 Using Current 12 CP & 1/13th AD Allocation Method
 Effective 1/1/09

Rate Class	(1) 12CP & 1/13 AD Demand Allocator (%)	(2) CR3 Uprate-MUR Revenue Required \$1,297,979 \$	(3) Effective Mwh's @ Secondary Level Year 2009	(4) Base Rate Energy Factor Impact for MUR (cents/Kwh)
Residential				
RS-1, RST-1, RSL-1, RSL-2, RSS-1				
Secondary	59.410%	\$771,135	20,542,747	0.004
General Service Non-Demand				
GS-1, GST-1				
Secondary			1,331,707	
Primary			8,915	
Transmission			3,293	
TOTAL GS	3.290%	\$42,702	1,343,915	0.003
General Service				
GS-2 Secondary	0.150%	\$1,950	89,624	0.002
General Service Demand				
GSD-1, GSDT-1, SS-1				
Secondary			13,080,248	
Primary			2,465,500	
Transmission			9,634	
TOTAL GSD	32.124%	\$416,968	15,555,382	0.003
Curtaillable				
CS-1, CST-1, CS-2, CST-2, CS-3, CST-3, SS-3				
Secondary			-	
Primary			189,647	
Transmission			-	
TOTAL CS	0.284%	\$3,692	189,647	0.002
Interruptible				
IS-1, IST-1, IS-2, IST-2, SS-2				
Secondary			1,468,420	
Primary			404,246	
Transmission			686,858	
TOTAL IS	4.592%	\$59,609	2,559,523	0.002
Lighting				
LS-1 Secondary	0.148%	\$1,923	361,353	0.001
	100.000%	\$1,297,979	40,642,192	0.003

Notes: (1) Demand Allocator From CCR Filing 8/29/08
 (2) Total MUR Revenue Requirements from Attachment D Line 27
 (3) Projected kWh sales at effective voltage level for 2009 per CCR Filing 8/29/08
 (4) Calculated: (Column 2 / Column 3)/10