



DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND
LITIGATION OFFICE
720 KENNON STREET SE ROOM 136
WASHINGTON NAVY YARD DC 20374-5051

IN REPLY REFER TO

August 28, 2009

Office of Commission Clerk
 Florida Public Service Commission
 2540 Shumard Oak Boulevard
 Tallahassee, Florida 32399-0850

090079

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Dear Sir or Madam:

Enclosed please find the original and seven copies of the Department of the Navy's Prehearing Statement in the above-referenced Docket.

Sincerely,

AUDREY VAN DYKE
 Counsel for the
 Secretary of the Navy
 And all Federal
 Executive Agencies
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Encl: Prehearing Statement

ADM _____
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**CERTIFICATE OF SERVICE
DOCKET NO. 090079-EI**

I hereby certify that a true copy of the foregoing COVER LETTER AND PREHEARING STATEMENT OF THE DEPARTMENT OF THE NAVY REPRESENTING ALL FEDERAL EXECUTIVE AGENCIES has been furnished by U.S. Mail on the 28th day of August, 2009.

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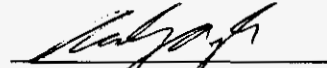
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Dated August 28, 2009

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition For Increase in Rates by Progress) DOCKET NO. 090079-EI
Energy Florida.) ORDER NO. PSC-09-0190-PCO-EI
) ISSUED: March 27, 2009

**PREHEARING STATEMENT OF THE DEPARTMENT OF THE NAVY AND
ALL FEDERAL EXECUTIVE AGENCIES**

Pursuant to the Florida Public Service Commission's March 27, 2009 *Order Establishing Procedure*, Order No. PSC-09-0190-PCO-EI, The Department of the Navy representing all Federal Executive Agencies (Navy), files its prehearing statement.

APPEARANCES

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On Behalf of the Department of the Navy and all Federal Executive Agencies

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1. **WITNESSES:**

The Navy intends to call the following witness who will address the issues indicated:

<u>NAME</u>	<u>ISSUES</u>
James Selecky	90-92, 111, 112

2. **EXHIBITS**

Through James Selecky, the Navy will sponsor the following exhibits: (1) Exhibit No. JTS-1, Chart depicting "Cost per kW of Production Plant When Allocating Using 12

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CP and 50% Energy Forecasted 12 Mos Ending December 31,2010”; (2) Exhibit No. JTS-2, Chart depicting “Progress Energy Florida Fuel Cost by Generation Category”; (3) Exhibit No. JTS-3, Chart depicting “Summary of Load Characteristics for Historical Years 1999-2008”; and (4) Exhibit JTS-4, “Resume of James Selecky”.

3. **STATEMENT OF BASIC POSITION**

The Navy is concerned with PEF’s “Allocated Class Cost of Service and Rate Return Study” (CCOSS). Specifically, we are concerned with PEF’s proposed allocation of production capacity costs. The retail class cost of service study methodology proposed by PEF is inappropriate because it allocates 50% of the production fixed cost on an energy basis. Allocating 50% of the production fixed cost on an energy basis has the effect of skewing allocation of generation capacity costs toward high-load factor customers without providing a proper share of the lower cost of fuel from the base load resources.

If the Commission is going to allocate a significant portion of the production fixed costs on an energy basis, it should also allocate the energy symmetrically. That is high load factor customers who receive an above average allocation of base load production costs should receive the benefit of lower fuel costs produced by this generation resource.

PEF’s system winter and summer peak demands are the most prominent and therefore the most important in determining PEF’s capacity needs. Therefore, summer/winter coincident peaks should be used to allocate fixed production costs. If the Commission elects not to utilize a summer/winter peak coincident peak

allocation, we recommend using the 12 coincident peak study with a 1/13 weighting to energy as contained in the Minimum Filing Requirements.

4. **STATEMENT OF FACTUAL ISSUES AND POSITION**

The Navy takes a position on Issues 90-92, 111 and 112. The Navy takes no position on all other issues. However, if an issue is not addressed by the Navy it should not indicate endorsement of the Company's position.

Issue 90: What is the appropriate Cost of Service Methodology to be used to allocate base rate and cost recovery costs to the rate classes?

Navy: Summer/winter coincidence peaks should be used to allocate fixed production costs. If the Commission elects not to utilize a summer/winter peak coincident peak allocation the results of the cost of service study that utilizes a 12 coincident peak study with a 1/13 weighted to energy should be used.

Issue 91: If the Commission approves a cost allocation methodology other than the 12 CP and 1/13th Average Demand, should all cost recovery factors be adjusted to reflect the new cost of service methodology?

Navy: Yes. The cost allocation methodology approved by the Commission should primarily be utilized to allocate any increase in this proceeding.

Issue 92: How should any change in revenue requirements approved by the Commission be allocated among the customer classes?

Navy: The Commission should utilize the result of a retail class cost of service study as a primary factor to allocate any changes in the revenue requirement among the customer classes.

Issue 111: What are the appropriate energy charges?

Navy: The energy charges should be designed to collect only those costs that fluctuate with kWh usage.

Issue 112: What are the appropriate demand charges?

Navy: Demand related or fixed costs should be recovered through the demand charges.

5. **STATEMENT OF STIPULATED ISSUES**

None.

6. **STATEMENT OF PENDING MOTIONS**

None.

7. **STATEMENT OF PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY**

None.

8. **OBJECTIONS TO QUALIFICATIONS OF WITNESSES AS AN EXPERT**

None at this time.

9. **STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE**

There are no requirements of the Order Establishing Procedure with which the Navy cannot comply.

Respectfully submitted,



Audrey Van Dyke
Counsel for the Secretary of the Navy