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Subject: Docket 110007 - PEF's Prehearing Statement
Attachments: Docket 110007 - PEF's Prehearing Statement.DOC

Electronic Filing

a. Person responsible for this electronic filing:

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b. Docket No. 110007-EI

In re: Environmental Cost Recovery Clause

c. Document being filed on behalf of Progress Energy Florida, Inc.

d. There are a total of 10 pages.

e. The document attached for electronic filing is Progress Energy Florida, Inc.'s Prehearing Statement.

Thank you for your cooperation.

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BEFORE THE PUBLIC SERVICE COMMISSION

In re: Environmental Cost Recovery Clause.	DOCKET NO. 110007-EI FILED: OCTOBER 3, 2011

PROGRESS ENERGY FLORIDA INC.'S
PREHEARING STATEMENT

Pursuant to the requirements of the Order Establishing Procedure (Order No. PSC-11-0150-PCO-EI), Progress Energy Florida, Inc. ("PEF") hereby submits its Prehearing Statement.

A. Known Witnesses - PEF intends to offer the direct testimony of:

Witness	Proffered By	Issue(s)
Will Garrett	Final True-up	1
Corey Ziegler	Final and Estimated True-up variances; and Environmental compliance cost projections	1-3
Patricia Q. West	Final and Estimated True-up variances; Environmental compliance cost projections; PEF's new Effluent Guidelines Information Collection Request Program, and Review of PEF's Integrated Clean Air Compliance Plan	1-3, 10A, 10C, 10E, 10F
Kevin Murray	Final and Estimated True-up variances for Crystal River air pollution control projects	1
David Sorrick	Estimated True-up variances and cost projections for Crystal River air pollution control projects	2-3, 10E
Thomas G. Foster	Estimated True-up; Environmental compliance cost projections and Final 2012 ECRC Factors	2-8, 10B, 10D, 10F, 10G

B. **Known Exhibits** - PEF intends to offer the following exhibits:

Witness	Proffered By	I.D. No.	Description
Will Garrett	PEF	______ (WG-1)	PSC Forms 42-1A through 42-8A January 20010 – December 2010
		______ (WG-2)	Capital Program Detail January 2010 – December 2010
Patricia Q. West	PEF	______ (PQW-1)	Review of Integrated Clean Air Compliance Plan
		______ (PQW-2) Confidential	Verified Petition for Approval of Cost Recovery for New Environmental Program and associated exhibits filed on March 11, 2011
		______ (PQW-3)	Verified Petition to Modify Scope of Existing Environmental Program and filed on May 24, 2011
		______ (TGF-3)	Form 42-5P, pages 3 of 18, 4 of 18, 6 of 18, 8 of 18, 10 of 18, 11 of 18, 12 of 18, 13 of 18, 14 of 18, 15 of 18, 16 of 18, 17 of 18, and 18 of 18
Corey Zeigler	PEF	______ (TGF-3)	Form 42-5P, pages 1 of 18, 2 of 18, and 9 of 18
Kevin Murray	PEF	______ (KM-1)	Crystal River Project Organizational Structure
David Sorrick	PEF	______ (DS-1)	Crystal River Project Organizational Structure
		______ (TGF-3)	Form 42-5P, page 7 of 16
Thomas G. Foster	PEF	______ (TGF-1)	PSC Forms 42-1E through 42-9E January 2011 – December 2011
		______ (TGF-2)	Capital Program Detail January 2011 – December 2011
		______ (TGF-3)	PSC Forms 42-1P through 42-8P January 2012– December 2012

Witness	Proffered By	I.D. No.	Description
		______ (TGF-4)	Capital Program Detail January 2012 – December 2012
		______ (TGF-5)	Commission Form 42-8E, Page 15, Revised

PEF reserves the right to identify additional exhibits for the purpose of cross-examination or rebuttal.

C. <u>Statement of Basic Position</u> – none necessary.

D.-F. <u>Issues and Positions</u>

PEF's positions on the issues identified in this proceeding are as follows:

<u>Issue 1</u> What are the final environmental cost recovery true-up amounts for the period January 2010 through December 31, 2010?

<u>PEF</u>: $6,232,839 over-recovery (Garrett, West, Zeigler, Murray)

<u>Issue 2</u> What are the estimated/actual environmental cost recovery true-up amounts for the period January 2011 through December 2011?

<u>PEF</u>: $2,552,337 over-recovery (Foster, Zeigler, West, Sorrick)

<u>Issue 3</u> What are the projected environmental cost recovery amounts for the period January 2012 through December 2012?

<u>PEF</u>: $221,158,907 (Foster, Zeigler, West, Sorrick)

<u>Issue 4</u> What are the environmental cost recovery amounts, including true-up amounts, for the period January 2012 through December 2012?

<u>PEF</u>: $212,526,641 (Foster)

<u>Issue 5</u> What depreciation rates should be used to develop the depreciation expense included in the total environmental cost recovery amounts for the period January 2012 through December 2012?

<u>PEF</u>: For 2012 final true-up purposes, the depreciation rates used to calculate the depreciation expense should be the rates in effect during that period. (Foster)

Issue 6 What are the appropriate jurisdictional separation factors for the projected period January 2012 through December 2012?

PEF: The jurisdictional energy separation factor is calculated for each month based on retail kWh sales as a percentage of projected total system kWh sales.
Production Base – 92.792%
Production Intermediate – 72.541%
Production Peaking – 91.972%
Transmission – 69.516%
Distribution Primary– 99.624%
A&G – 92.374%
(Foster)

Issue 7 What are the appropriate environmental cost recovery factors for the period January 2012 through December 2012 for each rate group?

PEF: The appropriate factors are as follows (Foster):

Rate Class	ECRC Factors 12CP & 1/13 AD
Residential	0.583 cents/kWh
General Service Non-Demand	
@ Secondary Voltage	0.577 cents/kWh
@ Primary Voltage	0.571 cents/kWh
@ Transmission Voltage	0.565 cents/kWh
General Service 100% Load Factor	0.570 cents/kWh
General Service Demand	
@ Secondary Voltage	0.572 cents/kWh
@ Primary Voltage	0.566 cents/kWh
@ Transmission Voltage	0.561 cents/kWh
Curtailable	
@ Secondary Voltage	0.565 cents/kWh
@ Primary Voltage	0.559 cents/kWh
@ Transmission Voltage	0.554 cents/kWh
Interruptible	
@ Secondary Voltage	0.557 cents/kWh
@ Primary Voltage	0.551 cents/kWh
@ Transmission Voltage	0.546 cents/kWh
Lighting	0.566 cents/kWh

Issue 8 — What should be the effective date of the new environmental cost recovery factors for billing purposes?

PEF: The new factors should be effective beginning with the first billing cycle for January 2012, and thereafter through the last billing cycle for December 2012. The first billing cycle may start before January 1, 2012, and the last billing cycle may end after December 31, 2012, so long as each customer is billed for twelve months regardless of when the factors became effective. (Foster)

Company Specific Environmental Cost Recovery Issues

Issue 10A — Should the Commission grant PEF's Petition for approval of cost recovery for the National Pollutant Discharge Elimination System (NPDES) Project?

PEF: Yes. The costs for this program meet the requirements of Section 366.8255 for ECRC recovery. All of the activities described in PEF's petition are necessary to comply with renewed NPDES permits issued or to be issued for PEF's facilities by the Florida Department of Environmental Protection (FDEP) pursuant to Florida's approved NPDES permitting program and applicable FDEP regulations. The expenditures associated with such activities are being prudently incurred after April 13, 1993, and none of the costs of the new program are being recovered through base rates or any other cost recovery mechanism. (West)

Issue 10B — How should the costs associated with the NPDES Project be allocated to the rate classes?

PEF: Capital costs for NPDES should be allocated to rate classes on a demand basis. O&M (operating & maintenance) costs for NPDES should be allocated to rate classes on an energy basis. (Foster)

Issue 10C — Should the Commission grant PEF's Petition for approval of cost recovery for the Maximum Achievable Control Technology (MACT) Project?

PEF: Yes. The costs for this program meet the requirements of Section 366.8255 for ECRC recovery. Adoption of the new MACT rule will require PEF to modify its Integrated Clean Air Compliance Plan to ensure compliance with new emission standards. The activities described in PEF's petition are necessary for PEF to assess the proposed rule, prepare comments to EPA, and develop compliance strategies within aggressive regulatory time-frames. Recovery of the costs of such activities is consistent with established Commission precedent approving recovery of costs incurred by utilities for technical analyses and other activities associated with development of environmental regulations and associated compliance strategies. The expenditures associated with such activities are being prudently incurred after April 13, 1993, and none of the costs of the new program are being recovered through base rates or any other cost recovery mechanism. (West)

Issue 10D How should the costs associated with the MACT Project be allocated to the rate classes?

PEF: O&M costs for the MACT should be allocated to rate classes on an energy basis. (Foster)

Issue 10E Should the Commission approve PEF's updated Review of Integrated Clean Air Compliance Plan that was submitted on April 1, 2011?

PEF: Yes. PEF's Integrated Clean Air Compliance Plan is reasonable and prudent and will have the desired effect of achieving timely compliance with the applicable regulations in a cost-effective manner. All of the major components of the Crystal River Unit 4 and 5 control projects included in PEF's Plan have been completed. PEF is continuing to evaluate future compliance options in light of EPA's recently finalized Cross-State Air Pollution Rule (CSAPR) and proposed Maximum Achievable Control Technology (MACT) standards for coal and oil-fired generating units. When the MACT rule is finalized and PEF determines its most cost-effective compliance options, PEF will submit revisions to its Plan for Commission review. The revised Plan will discuss the impacts and estimated costs of PEF's integrated strategy for complying with CSAPR, MACT and related regulatory programs. (West, Sorrick)

Issue 10F **Should the Commission approve PEF's proposed treatment of its CAIR-related annual NOx allowances?**

PEF: On July 16, 2011, the EPA issued the Cross State Air Pollution Rule (CSAPR) to replace the Clean Air Interstate Rule (CAIR) starting January 1, 2012. One of the known impacts to PEF is that the new rule significantly alters the SO2 and NOx allowance programs. Under the CAIR, Florida was required to comply with the requirements related to annual emissions of SO2 and NOx, as well as separate requirements regulating NOx emissions during the ozone season. Under the CSAPR, Florida is no longer included in the group of states required to comply with annual emissions requirements; it is only subject to the ozone season portions of the rule. Moreover, the emission allowances previously issued to utility companies under CAIR and/or the Acid Rain Program cannot be used to comply with CSAPR requirements.

Prior to EPA's adoption of CSAPR, PEF repeatedly kept the Commission apprised of the company strategy of gradually increasing its NOx allowance inventory over time to comply with CAIR. When PEF first requested the Commission approve its Integrated Clean Air Compliance

Plan in March 2006, the Company provided detailed economic analyses of five potential compliance scenarios, including one ("Plan A") that would call for installation of NOx emission controls on all of PEF's coal-fired units at the Crystal River (CR) Plant to comply with CAIR without having to purchase allowances. However, the economic analysis demonstrated that "Plan D," which relied on strategic purchases of annual and seasonal NOx allowance rather than installing NOx controls on CR Units 1 and 2, was the most cost-effective option for compliance with CAIR and related regulatory requirements. In the 2007 ECRC docket, PEF submitted updated economic analyses confirming that Plan D, which included its reliance on NOx allowance purchases, was the most cost-effective option. The Commission agreed that "PEF's Integrated Clean Air Compliance Plan represents the most cost-effective alternative for achieving compliance with CAIR, CAMR CAVR" in order No. PSC-07-0922-FOF-EI, issued November 16, 2007, Re: Environmental Cost Recovery, in Docket 070007-EI. In the subsequent years, 2008 through 2010, PEF updated the Commission annually on its Integrated Clean Air Compliance Plan, each of which included strategic NOx allowance purchases and were granted approval. Therefore, PEF's purchases of the annual NOx allowance were pre-approved by the Commission.

PEF acted prudently in implementing its procurement strategy of purchasing NOx allowance over time, to gradually increase inventory levels based on emission forecasts developed using the best information available at the time. During the relevant time period, in order to determine if PEF would need to purchase seasonal and annual NOx emission allowances, the Company compared its total seasonal and annual NOx emissions projections from fuel and generation forecasts to the number of the allowances held by PEF, which includes allowance allocations from the EPA, purchases made over time, and allowances carry-overs. As part of the fuel and generation forecasting process, emission burn projections are generated on a periodic basis for future periods with consideration of generation availability, planned outage schedules, purchased power contracts, fuel price forecasts, planned environmental equipment installations and load projections. In the aggregate, if the number of allowances that PEF would need to comply with CAIR based on forecasted emissions was greater than the number of allowances PEF held, the Company purchased additional allowances in the market.

Based on the above, the $22.5 million investments associated with PEF's NOx allowances under the CAIR were prudently incurred under a Commission approved environmental compliance plan. Therefore, it is appropriate for PEF to treat these $22.5 million NOx allowances as a regulatory asset and recover them through the ECRC. PEF' suggested amortization of this investment over one year is appropriate because, under EPA's new CSAPR, these allowances will no longer have value in future periods. While a one year amortization period is the most appropriate, other amortization periods could also be reasonable under these circumstances. However, revision of the proposed amortization period would require slight revisions to PEF's proposed ECRC factors and associated schedules. (Foster)

Company Specific Environmental Cost Recovery Issues Raised by Other Parties

Issue 10G: Should PEF be permitted to recover any environmental costs related to its purchases of replacement power due to the Crystal River 3 outage? [Raised by Florida Industrial Power Users Group]

PEF: Yes. The Commission has already decided the issue of whether replacement fuel (and related environmental) costs should be recovered in this instance. Specifically, in Order No. PSC-10-0734-FOF-EI issued in Docket No. 100001-EI, the Commission held that PEF shall be allowed to recover all replacement power costs due to the Crystal River 3 outage, subject to refund, prior to the determination of prudence of such costs in Docket No. 100437-EI. Such replacement power costs include costs of emission allowances needed to ensure that emissions associated with the replacement power complied with the Clean Air Interstate Rule (CAIR). PEF has demonstrated the reasonableness of these environmental costs, consistent with the requirements set forth in Order PSC-10-0734 and thus should similarly be permitted to recover these costs, subject to refund pending the determination in Docket 100437-EI.

G. Stipulated Issues

PEF is not a party to any stipulations at this time.

H. Pending Motions

PEF has no pending motions at this time.

I. Requests for Confidentiality

PEF has one pending request for confidential classification filed on September 15, 2011 regarding certain information provided in response to Staff's Sixth Set of Interrogatories (No. 14) [DN06652-11]

J. Requirements of Order

PEF believes that this prehearing statement complies with all the requirements of the Order Establishing Procedure.

K. Objections to Qualifications

PEF has no objection to the qualifications of any expert witnesses in this proceeding.

RESPECTFULLY SUBMITTED this 3rd day of October, 2011.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished to all counsel of record and interested parties as listed below by electronic mail and regular U.S. mail this 3rd day of October, 2011.

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