

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: May 25, 2006

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Baxter)
Office of the General Counsel (Brown)

RE: Docket No. 060342-EI – Petition for approval of revision to Sebring Rider, Rate Schedule SR-1, by Progress Energy Florida, Inc.

AGENDA: 06/06/06 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 06/11/06 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060342.RCM.DOC

Case Background

On April 12, 2006, Progress Energy Florida (PEF) filed a petition for Commission approval of revisions to its Sebring Rider (SR-1) tariff.

The Sebring Rider resulted from Commission Order No. PSC-92-1468-FOF-EU, issued on December 17, 1992, in Docket No. 920949-EU, In Re: Joint Petition of Florida Power Corporation and Sebring Utilities Commission for Approval of Certain Matters in Connection with the Sale of Assets by Sebring Utilities Commission to Florida Power Corporation. Prior to 1992, the City of Sebring operated a municipal utility under the Sebring Utility Commission. Faced with bankruptcy due to escalating debt obligations, the city opted to sell the utility and its assets. Tampa Electric purchased the generating assets, and Progress Energy (then Florida Power Corporation) agreed to purchase the utility assets and take over the remaining debt,

making Sebring customers now customers of PEF. Since the debt had been incurred by the City on behalf of the residents of the City, PEF argued that the cost of the purchase price above the net book value of the assets acquired, plus the 'going concern' value, should not be spread to the remainder of PEF's ratepayers. Instead, PEF petitioned for a special 15 year surcharge or rider that would recoup this debt from the residents of the City of Sebring. At the time, even with the Sebring Rider added to PEF's existing rates, residents of Sebring were paying less than they did under the City's management. The terms of the agreement required that all customers of Sebring as of the date of closing and all future customers in Sebring's service territory would be subject to the rider. The Sebring Rider is scheduled to terminate at the end of March, 2008. As of February 2006, PEF had recovered some \$42.7 million out of \$50.5 million that was approved to be recovered through the rider.

The Commission recognized that the Sebring Rider might need to be adjusted over time to match the rider revenues to the debt service requirements as closely as possible. As such, the Commission retained jurisdiction over all aspects of the rider and directed PEF to review the rider on an annual basis and submit the results of the review to the Commission. In Order No. PSC-96-1194-FOF-EI, issued September 23, 1996, in Docket No. 960905-EI, In Re: Petition for approval to revise Sebring Rider, Rate Schedule SR-1, by Florida Power Corporation, the Commission ordered a change from the annual review of the Sebring Rider to a three year review cycle to allow identification of trends more representative of future performance and permit better calibration in setting the level of the rider. To comply with the revised 3-year filing requirement of the rider, PEF filed its petition.

The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes.

Discussion of Issues

Issue 1: Should Progress Energy Florida, Inc.'s petition for approval of revisions to its Sebring Rider (SR-1) tariff be suspended?

Recommendation: Yes. (Baxter, Brown)

Staff Analysis: On April 12, 2006 Progress Energy Florida, Inc. (PEF) filed a petition for Commission approval of revisions to its Sebring Rider (SR-1) tariff. Staff is recommending that the tariff be suspended to allow sufficient time to review the petition and gather all pertinent information so that the Commission can make an informed decision on the tariff proposal.

Pursuant to section 366.06(3), Florida Statutes, the Commission may withhold consent to the operation of all or any portion of a new rate schedule, delivering to the utility requesting such increase a reason or written statement of good cause for doing so within 60 days. Staff believes that the reason stated above is good cause consistent with the requirement of Section 366.06(3), Florida Statutes.

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Issue 2 Should this docket be closed?

Recommendation: No. (Brown)

Staff Analysis: This docket should remain open pending the Commission vote on the proposed tariff revision.