State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 8, 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: 06/20/06 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 12/08/06 (8-Month Effective 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 the Commission approve PEF's proposed reduction in the Sebring Rider from 1.524 cents per kWh to 1.293 cents per kWh?

Recommendation: Yes. (Baxter, Brown)

Staff Analysis: The Sebring Rider is a formula rate similar to other rates that the Commission has established. The amount of the Sebring Rider is simply the total dollars to be recovered divided by the total number of kWh sales forecasted over a fifteen year time period.

As noted in the background discussions, the rider was to be collected from 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. During the most recent review of the rider, PEF discovered it had made errors in identifying customers who should be paying the rider in the former Sebring service territory. PEF stated that some 932 customers that should have been paying the rider were not, and some 55 customers were paying the rider who should not have been. PEF asserted that the errors were caused by inaccurate and ill-defined service territory maps received from the former Sebring municipal utility and changes to some of the street names and roadways within the former Sebring service territory.

PEF stated it was in the process of crediting the 55 customers who overpaid for a period of overpayment up to two years in the past, for a total amount of $16,000 including interest. Dividing the total amount to be refunded by the number of customer's works out to a refund of roughly $291 per customer. The two year period is set by the availability of customer billing records maintained by PEF.

PEF stated that it was back billing the 932 customers who should have paid the rider approximately $314,000, representing one year's past billing. Pursuant to Rule 25-6.106, Florida Administrative Code, a utility may not back bill for a period greater than 12 months when the undercharge was a result of the utility's mistake.

Dividing the total amount to be back billed by the total number of customers works out to an average back bill of roughly $337 per customer. In response to staff inquiries, PEF provided spreadsheets showing the actual back bill amounts per customer, which ranged from $.05 to $22,555. Staff was concerned that some of the commercial and larger residential customers would be negatively impacted by large back bill amounts totaling thousands of dollars being collected over a period of one year. After discussions with PEF, the company has agreed to collect the back bill amount from all 932 customers over a period of two years.

To synchronize the financial effects from the differing time periods for refunds and back billed amounts, Progress said it would absorb $253,836, which represents the second years' back bill the company could not collect from customers per Commission Rule 25-6.106. The total amount to be collected through the rider will thus be reduced by $253,836.

To avoid future errors, PEF states it has developed a more accurate geographic information system (GIS) map showing exact streets and properties subject to the rider. It has also changed its work order format to include a check-off option to indicate if an installation or turn on of electric service is subject to the rider. PEF also indicated it is developing a closer working relationship with both the City of Sebring and Highlands County to ensure that any changes in road and street names are more quickly communicated to the utility to keep its records up to date.

Staff agrees that the rider should be revised. Utilizing the updated sales forecast through the end of the rider's 15 year term, PEF has calculated a revised rider of 1.293 cents per kWh compared to the current rider of 1.524 cents per kWh. Attachment A to this recommendation shows the calculation and comparison of the rider from its initiation through the present. The attachment was prepared and developed by PEF as part of its initial filing in the docket.

Issue 2 Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, this tariff should become effective on the first billing cycle of August 2006. If a protest is filed within 21 days of the issuance of the order, the current 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. (Brown)

Staff Analysis: If Issue 1 is approved, this tariff should become effective on the first billing cycle of August 2006. If a protest is filed within 21 days of the issuance of the order, the current 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.