

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: March 27, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Baxter, Kummer)
Office of the General Counsel (Hartman)

RE: Docket No. 080128-EI – Petition to eliminate Sebring Rider, Rate Schedule SR-1,
by Progress Energy Florida, Inc.

AGENDA: 04/08/08 – Regular Agenda – Tariff Filing - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 05/02/08 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080128.RCM.DOC

Case Background

By Order No. PSC-92-1468-FOF-EU¹, the Commission established Rate Schedule SR-1, Sebring Rider, a rate adjustment applied to Progress Energy Florida (PEF) customers residing in areas previously served by the Sebring Utility Commission (Sebring). Over a number of years, Sebring had accumulated significant debt to provide electric service to its residents. Because Sebring had become unable to service its debt and comply with its bond covenants, Sebring was forced to sell its utility system to PEF (then Florida Power Corporation). As part of the purchase and sale agreement, PEF agreed to pay Sebring an amount sufficient to retire the outstanding debt, and to refinance the debt as part of PEF's own medium-term financing program. PEF then requested a surcharge to recover this approximately \$30.6 million debt cost. The Commission

¹ Order No. PSC-92-1468-FOF-EU, 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.

approved a surcharge to recover that debt from the Sebring customers over a fifteen year period beginning in April 1993. By Order No. PSC-92-1468-FOF-EU, the surcharge was determined not to be discriminatory under the statute because of the circumstances:

The record of this proceeding makes it perfectly clear, despite many Sebring customers' wish that it be otherwise, that the cost of the Sebring debt is a cost to serve the Sebring customers. That cost attaches to that class of customers, and distinguishes it from other classes of customers, no matter who provides the electric service ... We find that the Sebring rider rate appropriately identifies the additional cost to serve Sebring customers, appropriately allocates that cost to those customers, and appropriately insulates Florida Power Corporation's general body of ratepayers from the costs that were not incurred for their benefit.

The initial cost projections were modified in Order PSC-93-1519-FOF-EI to reflect the finalized debt and interest figures to determine the total amount to be collected over the life of the Rider.²

The adjustment factor was applied on a kilowatt hour basis for usage by customers residing in the designated territory and was adjusted to reflect actual usage on a going forward basis. Initially, PEF was required to submit a review of the collections to date on an annual basis to ensure that the recovery was proceeding on target to recover the appropriate amount within the fifteen year time frame. In 1996, PEF was permitted to go to a three year review cycle.³ In 2006, PEF discovered that errors in the application of the Rider to certain customers, due to inaccuracies in the map originally provided by SUC at the time of purchase. PEF filed a petition to issue refunds to some customers and back bill others to remedy these errors.⁴

On April 1, 2008, the fifteen year period expired, and PEF ceased collecting the surcharge, pursuant to the provisions of Order No. PSC-92-1468-FOF-WU. PEF has filed for cancellation of the Sebring Rider as provided for in the Order. Sebring residents will now pay only the otherwise applicable PEF rates, resulting in a rate reduction for these customers. The Commission has jurisdiction pursuant to Sections 366.03, 366.04, 366.05 and 366.06.

² Order PSC-93-1519-FOF-EI, Docket No. 930868-EI, In re: Joint Petition of Florida Power Corporation to Revise Its Sebring Rider Rate Schedule SR-1

³ Order No. PSC-96-1194-FOF-EI, Docket No. 960905-EI, In re: Petition for Approval to Revise Sebring Rider, Rate Schedule SR-1 by Florida Power Corporation

⁴ Order No. PSC-06-1194-FOF-EI, Docket No. 060905-EI, In re: Petition for Approval Revise Sebring Rider, Rate Schedule SR-1 by Progress Energy Florida

Discussion of Issues

Issue 1: Should the Commission cancel Tariff Sheet 6.340, and eliminate the Sebring Rider surcharge associated with the purchase of the Sebring system by PEF?

Recommendation: Yes. PEF has demonstrated that it has collected the specified amount within the allotted time frame and stated that it is no longer applying the surcharge to Sebring customers' bills. The Rider should therefore be cancelled. (Kummer, Hartman)

Staff Analysis: As noted in the Case Background, in 1992 PEF acquired the Sebring municipal utility system which was heavily in debt and in danger of default on its municipal utility bonds. As part of the purchase agreement, PEF agreed to refinance the difference between the purchase price and the depreciated net book value of the Rate Base Assets, plus any going concern value determined by the Commission to be a prudent investment. PEF requested, and the Commission approved, the Sebring Rider, a separate incremental charge to customers living within the territory previously served by the municipal utility to recover this cost. The charge was to be structured to recover the debt amount over no more than a fifteen year time frame.

Over the past 15 years, PEF has filed for adjustments in the rider level to reflect the difference between projected and actual usage. Supporting documentation filed with the petition indicates that PEF realized a very small under recovery of approximately \$7,000. PEF has not requested recovery of this amount through any other mechanism.

Pursuant to the provisions of Order No. PSC-92-1468-FOF-EU, PEF has ceased collecting the Sebring Rider surcharge as of April 1, 2008. The tariff should therefore be eliminated and all customers who were subject to the surcharge will now pay only the otherwise applicable PEF rates.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If the Commission approves Issue 1, the docket should be closed.
(Hartman)

Staff Analysis: If the Commission approves Issue 1, the docket should be closed.