

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition by Progress Energy)
Florida, Inc. to recover costs of)
Crystal River Unit 3 uprate through)
fuel clause)

DOCKET NO. 070052-EI

FILED: August 28, 2007

**POST-HEARING BRIEF OF
PCS PHOSPHATE-WHITE SPRINGS**

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Pursuant to the Order Establishing Procedure in this docket, Order No. PSC-07-0390-PCO-EI, issued May 2, 2007, White Springs Agricultural Chemicals, Inc. d/b/a PCS Phosphate White Springs (“White Springs”) hereby files its Post-hearing brief in this matter.

A. STATEMENT OF FACTS

1. General Background and Base Rates

Progress Energy Florida (“Progress” or “PEF”) has an exclusive monopoly to provide electric service to 1.6 million electric customers in its franchise areas. TR 133. In exchange, the utility is obligated to provide safe, adequate and reliable service at the lowest reasonable cost. TR 318.

Given the nature of electric supply and demand, Progress maintains a fleet of base load, intermediate and peaking power plants; and PEF supplements its own generation with both long and short term power purchases to achieve a 20% capacity reserve compared to its expected annual system peak load. TR 42; 134-35. Progress Energy has experienced sustained growth in customer accounts and electric sales which the utility expects will continue for the foreseeable future. TR 13.

For rate purposes, the capital costs of PEF's generation normally are recovered in base rates over the expected useful life of the assets in order to match cost recovery with the use of the assets. TR 408-09. In base rate cases, considerable effort is expended in allocating production costs on a functional basis in accordance cost causation principles that are reflected in embedded cost of service studies. Those costs are uniformly allocated on a demand basis.¹

A utility's base rates to consumers necessarily reflect a snap-shot assessment of the revenue requirement needed for just and reasonable rates. Utility revenues and costs are expected to deviate to varying degrees over time from those rate case estimates. The net effect of such deviations is reflected in the utility's earned returns that the Commission tracks through its earnings surveillance process. TR 392-93. For this reason, piecemeal rate-making generally is discouraged, and multi-year rate settlements often permit utility petitions to re-assess rates if earned returns fall below minimally acceptable levels.²

In this instance, the base rates for Progress Energy were last set through a rate stipulation in Docket No. 050078-EI, which the Commission approved in Order No. PSC-05-0945-S-EI, issued September 28, 2005 (the "2005 Rate Stipulation"). The stipulation provided for a permanent increase in base rates beginning January 1, 2006 and is effective for a term of four years, i.e., through December 2009. Among the terms of

¹ See, e.g., Docket No. 050078-EI, Progress Energy Florida, *Order Approving Stipulation and Settlement, Order No. PSC-05-0945-S-EI, Attachment A, Exh. 1, p. 1 of 2, items 5 and 6* (specifying discrete cost allocation methodologies in relation to PEF's coincident peak ("CP") that PEF will apply to production capacity and transmission capacity during the term of the existing rate settlement), *see also* TR 356-57.

² See, e.g., the 2005 PEF Rate Stipulation, para. 7.

the stipulation were a commitment by Progress Energy that the utility “will not petition for any new surcharges, on an interim or permanent basis, to recover costs that are of a type that traditionally and historically would be, or are presently, recovered through base rates.” (Stipulation paragraph 4).

The 2005 Stipulation also acknowledges PEF’s continuing need to invest in its “electric generation and other infrastructure for the foreseeable future in order to provide safe and reliable power to meet the growing needs of customers in the state of Florida.” (Stipulation at p. 3.) PEF’s annual Ten Year Site Plans (“TYSP”), filed pursuant to Rule 25-22.071, detail the utility’s on-going assessments of power needs and planned resources. (*See Exhibits 21, 26, 27.*)

2. Fuel Adjustment Clause Cost Recovery

In addition to base rates, Progress collects revenues for specific purposes through several pass-through clauses. The Commission historically has determined that only “prudently incurred fossil fuel-related expenses which are subject to volatile changes should be recovered through an electric utility’s fuel adjustment clause.”³ The Commission conducts its annual fuel clause proceeding in order to make fuel factor adjustments as appropriate to manage the deviations between forecast and actual fuel-related costs. As OPC witness Merchant explained explained, special clauses are not intended to replace the base rate process. TR 396.

³ *In re: Cost Recovery Methods for Fuel-Related Expenses*, Order No. 14546, 85 FPSC 531, issued July 8, 1985 (“Order 14546”).

In 1985, the Commission carved out a limited exception to capital cost recovery of electric generating plant in base rates. In Order 14546, the Commission provided a number of clarifications to its fuel cost recovery policy. Item 10 of these clarifications allowed for fuel clause recovery of certain capital costs as follows:

Fossil fuel-related costs normally recovered through base rates but which were not recognized or anticipated in the cost levels used to determine current base rates and which, if expended, will result in fuel savings to customers. Recovery of such costs should be made on a case by case basis after Commission approval.

In the Order, the Commission explained the reasoning behind item 10 as follows:

...the parties also recommended to the Commission that the policy it adopts be flexible enough to allow for recovery through fuel adjustment clauses of expenses normally recovered through base rates when utilities are in a position to take advantage of a cost-effective transaction, the costs of which were not recognized or anticipated in the level of costs used to establish the utility's base rates.... The parties suggest that this flexibility is appropriate to *encourage utilities to take advantage of short-term opportunities* not reasonably anticipated or projected for base rate recovery.⁴ (emphasis supplied).

In the years following the adoption of Order 14546, the Commission in several instances has approved the recovery of lesser capital investments through the fuel clause where fuel cost savings were projected to exceed the project cost. See Exhibit 28. As shown, the PEF/ FPC projects receiving fuel cost treatment in the past involved switching units to a lower cost generation fuel (i.e., from oil to natural gas). Fuel clause recovery for these investments was justified on the basis of an emerging consensus that the price advantage of natural gas over oil would persist, and the projects did not involve a material change in the capacity of the affected units. In addition to the FPC fuel conversions, Florida Power & Light received fuel clause recovery of a \$10 million

⁴ Order No. 14546 at p. 3.

thermal power uprate at Turkey Point in 1996 that produced a 30 MW increase in capacity. At the time, FPL's annual jurisdictional fuel cost was roughly \$800 million, and recovering the relatively modest \$10 million investment over two years did not prevent consumers from seeing immediate bill savings from that equipment upgrade.⁵

3. The Progress Energy CR3 Uprate Petition

By petition dated September 22, 2006, PEF requested a determination of need for a proposed uprate to its Crystal River nuclear unit 3 ("CR3") that will add 180 MWe of base load system capacity, and for a determination by the Commission permitting PEF to recover the full cost of the uprate through the fuel adjustment clause. PEF stated in its initial testimony that the uprate would have a total capital cost of \$382 million. TR 41. With AFUDC accrued on the project of approximately \$66 million, PEF estimates the total project cost to consumers at \$448 million by its completion in 2011. TR 452.

The utility initially estimated that 40MW of added capacity will be available following improvements made during the 2009 planned re-fueling outage for CR3, and 140 MW of additional capacity will be added due to the uprate actions planned for the 2011 CR3 outage. PEF subsequently amended its filings to perform the first planned action, a measurement uncertainty recapture ("MUR") in 2007. A summary of the planned actions

⁵ See Order No. PSC-96-1172-FOF-EI; *see also* TR 404.

and estimated costs is as follows:

Year	Items Installed	Estimated Cost	Capacity (MW)
2007	Measurement Uncertainty Recapture (instrumentation)	\$6 million	12
2009	“Balance of Plant” (turbine, rotor and pump replacements)	\$88 million	28
2011	Reactor core/ fuel	\$ 199 million	140

The 180 MW capacity uprate will make CR3 the largest single generation resource on the Florida system. Tr. 75. As a result, PEF asserts, system studies need to be performed to determine if transmission system upgrades are required to ensure that the Florida grid can reliably accommodate the sudden loss of generation from CR3. As of the close of the evidentiary record in this docket, PEF had not completed those studies. TR 57. Instead, the utility has assumed for the purpose of its request that upgrades to 35 miles of its 230 kV lines from Madison to Taylor Counties, which are over 100 miles from CR3, would be required at a cost of \$89 million. TR 89-90. PEF and other Florida utilities are examining required transmission upgrades, particularly in Northern Florida, for reliability purposes, to accommodate out of state power imports and exports, and to accommodate system load growth. TR 93.

PEF also projects that the uprate will produce higher thermal emissions from CR3 which the utility predicts will require some form of mitigation. PEF has not completed an analysis of what, if any, point of discharge (“POD”) modifications will be required, but the utility has used the cost of its 1993 cooling tower additions, inflated to current

(2006) dollars as a proxy. TR 57. This yields an estimated added capital cost of \$43 million.

PEF has requested authority from the Nuclear Regulatory Commission (NRC) to extend the license life of CR3 from 2016 to 2036. Twenty year license extensions have become the norm in the industry and many owners have sought or already obtained similar license extensions from the NRC. PEF fully expects to receive such an extension for CR3. TR 45. Progress expects the equipment added for the uprate will have useful lives extending to the expected renewed license date of 2036. TR 408-09.

Progress proposes to recover the MUR investment over one year and to amortize the Phase II, Phase III, transmission and POD upgrades; including a return component and taxes, over ten years to the extent that the resulting revenue requirement does not exceed the expected uprate-related fuel savings. TR 270. In the event fuel savings are not sufficient to cover the uprate's revenue requirement in a given year, PEF would offset all fuel savings against the uprate costs and carry any excess unamortized costs for that year forward, with carrying charges, for recovery in subsequent years. TR 270.

Exhibit 29 (page 2) contains PEF's estimates of revenue requirements, fuel savings and consumer fuel cost savings. Over the life of the assets (i.e., through 2036), PEF projects a net present value benefit to consumers of roughly \$320 million, but the Exhibit shows that over the first ten years of the uprate (2008-2017), over 93% of the

expected \$600 million in cumulative fuel savings (nominal dollars) will be absorbed by PEF to recover the project's costs and return on investment.⁶

The Commission bifurcated this matter to decide separately 1) the need for the uprate required by Rule 25-22.081(3) F.A.C., and 2) how the prudent costs of the uprate should be recovered from consumers in rates (i.e., through the fuel clause, base rates or otherwise). All Intervenor Parties supported a favorable need determination, and the Commission issued its Order No. PSC-07-0119-FOF-EI, granting that determination on February 8, 2007. Thus, the current docket concerns only the manner of cost recovery of the uprate project in consumer rates.

B. SUMMARY OF ARGUMENT

The Commission's finding of an economic need for the proposed CR3 uprate begins rather than ends the discussion of the appropriate rate treatment of these investments. The Progress Energy uprate to CR3 is a large addition to the utility's base load capacity that should be addressed in the utility's base rates and not recovered through the fuel adjustment clause. White Springs maintains that the Commission should, in the first instance, hold Progress Energy to its commitment in the 2005 rate stipulation that prohibits PEF from seeking any new surcharges. This prohibition is not confined to the creation of new pass-through mechanisms, but applies expressly to costs that are of a type that traditionally and historically would be, or are presently, recovered through base rates." (Stipulation at para. 4.) An expansion of base load nuclear capacity

⁶ For ease of reference, the figures from Exh. 29 are shown on Attachment A to this brief.

with a projected cost approaching half a billion dollars plainly qualifies as a traditional base rate matter.

PEF concedes that investments to increase the capacity of a base load nuclear unit normally would be a base rate item, but the utility maintains that the Commission policy articulated in Order 14546 allows fuel clause recovery. The CR3 uprate, however, does not fit within the limited exception provided by Order No 14546. Order 14546 does not constitute an open invitation to by-pass the normal rate-setting process if net fuel cost savings can be claimed. To the contrary, as stated in that Order, the Commission intended to encourage utilities to take advantage of “short term opportunities” to reduce fuel costs. Here, the uprate is a capacity expansion planned well in advance⁷ that has become fully integrated into PEF’s resource plan and supplants capacity additions that previously had been included in its plans to satisfy load growth. The capacity ramifications of the uprate are as important as PEF’s projected energy cost savings. PEF’s fuel clause recovery proposal mis-construes Order 14546 and would produce aberrant results that cannot be reconciled with the public interest or basic rate-setting principles. Indeed, the utility’s logic neuters the Commission’s finding that it needs to consider such requests on a case-by-case basis.

Next, the Progress Energy proposal to limit its annual amortization of uprate costs to the expected annual fuel savings associated with the uprate does not save an otherwise faulty scheme. PEF’s proposal ensures that the utility receives an accelerated return of its costs, and a guaranteed return on those investments, before ratepayers see any benefit.

⁷ In fact, this petition was filed five years before the major uprate activities are scheduled to occur.

PEF's front-loaded recovery scheme requires customers to bear all of the costs in the earlier years, but receive almost none of the benefits; and consumers bear all of the risk that the projected fuel savings may not be realized as projected. PEF has not shown any particular concern for the serious inter-generational equity issues raised by its proposal since its shareholders would be getting paid first, but the proposed rate treatment certainly would stand basic rate-making principles on their collective heads.

There is no avoiding the basic fact that this capacity uprate is dramatically different in scale from all prior requests for fuel clause treatment pursuant to Order 14546, and that this is a factor that makes a difference. For example, the AFUDC estimated for this project (around \$66 million) is over six times the size of the FPL thermal uprate. In the other instances cited of fuel cost saving investments that received fuel clause treatment, AFUDC was not even a material consideration.

Roughly one third (\$132 million) of the estimated uprate costs concern investments that are, at best, tangential to the uprate: upgrades to the CR3 point of discharge ("POD") control of thermal water discharges and potential transmission upgrades that, PEF suggests, might be required for statewide reliability purposes. Neither of these elements has been developed in sufficient detail to pass basic muster in a base rate filing because even preliminary studies have not been completed. As always in rate proceedings, the utility bears the burden of proving the reasonableness of its proposed costs and PEF has not met that burden. Moreover, major transmission expansions affect power flows throughout the State and routinely involve a host of considerations. The Commission should avoid fuel clause recovery for transmission improvements that extend beyond the switchgear for CR3. Prudent regulatory practice argues compellingly

for a requirement that PEF fully develop the need, design and budgets for these potential facets of the uprate project before the Commission ventures any decision on rate recovery.

Significantly, Progress Energy is not in any way disadvantaged by a denial of fuel cost recovery and a determination that the uprate costs can be considered in PEF's next base rate case. The majority of the uprate is not slated to go into commercial operation until 2009 or 2011, with most of that in 2011. Progress has ample opportunity to seek a change in base rates to recover the uprate costs if the utility judges that an increase in base rates actually can be justified.

C. ARGUMENT

ISSUE 1: Should the Commission authorize clause recovery of the prudent and reasonable costs of the following:

A. Phase 1 of PEF's CR3 Uprate Project?

No. The measurement uncertainty recapture ("MUR") replacement of obsolete and inaccurate instrumentation has become a commonplace nuclear plant upgrade over the past decade. PEF's revised plan to perform the MUR upgrade in 2007, rather than 2009 as originally filed, does not change the fact that this is a base rate expenditure that should be subsumed among the on-going capital investments in its system that the Commission expected PEF to make as part of the 2005 rate stipulation, and no special allowance is warranted for fuel cost recovery.

The NRC requires nuclear plant operators to ensure that units do not exceed their design power output ratings. As a part of the conservative design elements that are typical of nuclear regulation to ensure safety, the NRC required units to run 2-3% rated levels to account for instrumentation inaccuracy in measuring power levels. Tr. 98. As with many things, the technologies available today are able to measure power output far more accurately than the instrumentation that was installed at Crystal River 3 in the

1960s. TR 42. Specifically, several vendors, including most prominently, Caldon, the manufacturer chosen by PEF, have developed and marketed various versions of ultrasonic flow meters (“UFMs”) that allow for significantly more accurate measurements. Tr. 99.

The NRC has developed a streamlined process for reviewing what it categorized as “Measurement Uncertainty Recapture” (“MUR”) improvements. Over the last decade, Caldon alone has installed UFMs in more than 50 nuclear reactors. Tr. 99-101. While not routine, MUR improvements have become commonplace as plant operators take advantage of the “low hanging fruit” of power upgrades associated with simply installing modern instrumentation to replace equipment that is archaic by today’s standards. PEF is sufficiently confident in approval of its MUR plan for CR3 that it plans to make the instrumentation changes in advance of NRC approval. Tr. 67.

PEF estimates the MUR cost at \$6 million with a resulting capacity increase of 12MW. TR 46. FIPUG is correct that there is nothing innovative or prototypical about the MUR investment. TR 351; *see* Exh. 17. Indeed, given the experience in the nuclear industry with power upgrades and the NRC’s open encouragement of MUR upgrades, one might wonder why PEF waited as long as it has to implement an MUR upgrade. FIPUG and OPC are also correct that the Progress base rate stipulation presumes that PEF will continue to make necessary and appropriate capital improvements in its system. Progress continues to experience robust sales and revenue growth,⁸ hence existing base rate levels should be more than sufficient to accommodate the MUR project. PEF’s earnings reports

⁸ The PEF system hit a new all time peak demand of 9,671 MW on Monday, August 20, 2007 (Progress Energy press release).

would reveal if capital spending or other non-pass through cost drivers were adversely affecting the utility's financial parameters, but there is no indication that this is the case. TR 450. In sum, a fuel clause allowance for the MUR Phase of the uprate is both unnecessary and duplicative of provisions in the rate stipulation that provide for capital projects.

B. Phase 2 of PEF's CR3 Uprate Project?

No. PEF's 2005 and 2006 resource plans called for additional natural gas and coal –fired generation to be built to meet expected sales growth. The utility's current TYSP effectively replaces the planned coal unit with the CR3 uprate and additional power purchases. As the CR3 uprate represents a planned baseload capacity addition, it should be treated for rate purposes like similar base load generation additions (as rate base additions in its next base rate case). Guaranteed cost recovery of the capital costs and return on the uprate investment rate is unwarranted, is inconsistent with the 2005 base rate stipulation, and is not contemplated by the limited exception created in Order 14546.

C. Phase 3 of PEF's CR3 Uprate Project, including:

1. Nuclear Core Modifications, Secondary Systems, and Other Project-related Plant Additions/Modifications?

No for the reasons stated with respect to the Phase II investment. Further, piece-meal rate decisions on major modifications or upgrades to CR3 should be avoided. PEF is free to file for a change in base rates to accommodate the Phase 3 uprate investments before the new investments are slated to enter commercial operation.

[The same arguments apply to Phases 2 and 3 of the proposed CR3 Uprate]

PEF's request for fuel clause recovery of the uprate investment seeks to draw a bright line distinction in this docket that is not tenable. The utility concedes that it would not seek fuel clause recovery for capacity related generation additions or re-powerings (TR 260-61), but it maintains that fuel clause recovery is appropriate for investments made for economic reasons (*i.e.*, to lower fuel costs). The problem with this neat split is

that a 180 MW addition to base load nuclear capacity, which will always displace other higher cost resources, has significant capacity and energy cost impacts. PEF agrees that the uprate has substantial capacity benefits. TR 160. Indeed, PEF witness Waters observed that "... the project is so large it tends to confuse whether it's a capacity addition or an energy addition." TR 159. The added capacity at CR3 in part supplants the planned Hines 5 & 6 combined cycle units and super-critical coal-fired generation.⁹ The added capacity at CR3 creates a Florida system reliability question because CR3 becomes the largest resource on the system. TR 75.

Thus, while PEF maintains that it has pursued the uprate projects described in this petition primarily for economic (fuel savings) reasons, the uprate in fact has altered the utility's generation construction and power purchase strategies. This is precisely the reason why a case by case assessment is required for all requests for fuel clause treatment for production plant, and why projected fuel savings cannot be the sole criteria for determining the appropriate rate treatment.

More fundamentally, Order 14546 requires a case-by-case determination because fuel clause recovery of generation capital investments is at odds with basic rate-making principles. Item 10 of that Order is a limited exception that aimed to fill a gap to avoid missed "short term opportunities". The Commission should consider all of the factors it deems pertinent when assessing such requests. These include the size and cost of the project, the planning horizon, and expected fuel savings. A utility is not entitled to fuel clause recovery simply by alleging net fuel cost savings over the life of the assets for

⁹ Hines 5 & 6 and the coal units are planned additions in PEF's 2005 and 2006 TYSPs that are replaced by the CR3 uprate and power purchases in the 2007 TYSP. See Exhibits 26 and 27.

costs not currently in base rates, and the Commission should not limit the scope of its inquiry in that fashion.

In this instance, the planned uprate does not in any sense constitute a short term opportunity, but is a planned capacity expansion. At \$448 million, the planned size and cost of the CR3 uprate goes far beyond any prior fuel clause allowance for what would normally be a base rate item. While PEF would prefer to focus only on the ratio of cost savings to costs over the recovery period (Exhibit 28), there is no ignoring the basic rate/cost recovery issues. Over the first ten years of the uprate, PEF would absorb over 93% of the projected \$605 million in uprate-related fuel savings, produced over that period. (See Exhibit 29 and Attachment A to this brief.) Consumers would not see any net fuel savings until 2016. Exh. 14. This, of course, completely defeats the logic of encouraging utilities to act now to lower fuel costs for consumers rather than waiting to include such investments in the next base rate case.

Of course, on the other hand, consumers in later years receive most of the benefits with virtually no cost responsibility. While the benefits to PEF shareholders of the front-loaded scheme are apparent, the serious inter-generational inequity created by PEF's proposal points to fundamentally mis-guided rate regulation. TR 470-71. PEF also is not troubled by the fact that it's proposed 10 years amortization period is far shorter than the asset's expected usefulness or tax lives, but this should give the Commission further cause for concern since it creates highly distorted tax timing issues. TR 475-76.

Next, as OPC witness Lawton explained, the front-loaded, guaranteed return, cost recovery plan PEF proposes is an exceptional and unwarranted rate incentive that offers PEF shareholders less risk and greater reward than they could reasonably expect under

normal rate treatment. TR 477. PEF simply has not made a case to justify such exceptional incentives to add base load capacity.

PEF asserts that limiting its annual cost recovery to the expected level of fuel savings means that fuel savings, not consumers, pay for the uprate. TR 577. This is hardly the case. Indeed, the very purpose of this docket is to decide how PEF will charge consumers for the cost of the uprate. If the uprate revenue requirement exceeds annual fuel savings (which PEF projects will occur in 2011, 2012 and 2013),¹⁰ consumers in subsequent years simply pick up the unamortized amounts for that year, plus carrying charges. TR 270-71. In short, the annual limit keeps PEF whole and actually adds to consumers' burden in later years.

In sum, PEF seeks to evade the objection that the uprate costs are of a type normally recovered in base rates, and hence prohibited by the 2005 Rate Stipulation, by reference to the item 10 exception created by Order 14546. There are two answers to that evasion. The first, as discussed above, is that the uprate costs do not qualify for fuel clause recovery under Order 14546. The second is that, even if such recovery could be justified under that 1985 policy, PEF's proposal still violates the letter and spirit of the 2005 Rate Stipulation.

2. The "Point of Discharge" Cooling Solution?

WHITE SPRINGS POSITION: *No. PEF estimates that its POD investment will be large (\$43 million) but it offered no actual analysis or studies of the issue, discussions with the DEP or other credible assessments to justify its request that such costs be recovered through the fuel clause. The utility bears the burden of proving the proposed investments are necessary, reasonable and prudent. PEF, however, provides only an

¹⁰ See Exhibit 29, p. 2.

assumed proxy that does not satisfy its burden of proof. At a minimum, the Commission should withhold any decision on rate recovery for the proposed POD investment until PEF provides specific plans, DEP permit authorization and a Board approved capital budget.*

There is no rational basis for including \$43 million for point-of-discharge investments in fuel clause recovery. These are not fuel costs in the first instance, but would be needed, if at all, only to support the increased power (capacity) output of the facility. TR 340. Further, PEF has not completed the studies required to assess potential thermal discharge issues. TR 57. PEF's proxy (its 1993 cooling tower investment adjusted for inflation) is not a meaningful substitute for an informed cost estimate based on POD changes that the utility has determined are necessary. PEF has not satisfied its burden of proof in this area, and the Commission should not consider any rate recovery for POD upgrades until it has adequate information.

3. Transmission Upgrades Associated With the CR3 Uprate Project?

WHITE SPRINGS POSITION: *No. Any transmission upgrade changes power flows and many system variables must be considered. PEF's transmission proposal has not been developed yet. The Commission should require a complete review of PEF's transmission investments as part of its TSYP review and consider rate recovery of such added investments in base rate cases. PEF's unsubstantiated assumption that a \$83 million upgrade to a transmission line located 100 miles north of CR3 for Florida reliability purposes does not qualify for fuel clause recovery.*

As the Commission observed in its Review of 2006 Ten Year Site Plans for Florida's Electric Utilities, load growth, changing power flows and reliability concerns all have contributed to the need for a North Florida Transmission Study. *See* TR 93. PEF asserts, without any supporting engineering assessments,¹¹ that upgrading a 230 Kv line between Madison and Taylor counties over 100 miles from CR3 is a reasonable

¹¹ Those studies not have been completed. TR 49.

proxy for grid upgrades that might be required because the uprate will leave CR3 as the largest resource on the Florida system. TR 89-90. PEF's claim has no credibility.

Transmission investments are not fuel related and should not be recovered in the fuel clause. Further, any transmission investment associated with the CR3 uprate is solely a function of its capacity rating and Florida State reliability considerations. TR 94-95. Such cost should not be recovered in fuel charges. Finally, transmission upgrades anywhere in North Florida will change power flows and pose numerous concerns. PEF's simplistic assumption in this docket flies in the face of the multiple factors under consideration in the North Florida Transmission Study. There is no rational basis for accepting PEF's unsubstantiated \$89 million transmission upgrade estimate.

4. Other costs associated with phase 3 of the CR3 Uprate Project?

WHITE SPRINGS POSITION: *No. All of these uprate costs are typical base rate charges and should be recovered through the base rate process.*

ISSUE 2: **If the Commission authorizes clause recovery of the CR3 Uprate Project, which cost recovery clause, fuel or capacity, is appropriate for capitalized costs attributable to the uprate?**

WHITE SPRINGS POSITION: *No. The uprate investments at issue are properly classified as demand related. Every effort should be made to align the recovery of these costs, in terms of timing, allocation and rate design with the normal function and classification of these plant additions. Recovering demand related costs through kwh charges, as PEF proposes, produces a basic mis-alignment of cost recovery and cost causation that the Commission should avoid.*

As FIPUG witness Pollock explained, PEF nuclear production electric plant is properly considered to be demand related and those costs are allocated on the basis of a coincident peak formula (12 CP and 1/13th). TR 357, *see* Exh. 19. The purpose of such

formulas is to allocate production costs based on cost causation. Recovering demand on an energy basis through the fuel clause mis-aligns cost causation and cost recovery.

ISSUE 3: If the Commission authorizes clause recovery of the CR3 Uprate Project, what capital recovery periods should the Commission prescribe for the assets?

WHITE SPRINGS POSITION: * The Commission should base capital recovery of the assets based on the expected useful life of the rate base additions.*

ISSUE 4: Based on the recovery periods prescribed for the CR3 Uprate Project assets, what ratemaking adjustments, if any, are necessary?

WHITE SPRINGS POSITION: *Agrees with OPC.*

ISSUE 5: If the Commission authorizes PEF clause recovery of the CR3 Uprate Project, what return on investment should the Commission authorize PEF to include?

WHITE SPRINGS POSITION: *Agrees with OPC.*

ISSUE 6: If the Commission authorizes clause recovery of the CR3 Uprate Project, how should the costs associated with the project be allocated between wholesale and retail jurisdictions for rate recovery purposes?

WHITE SPRINGS POSITION: *Agrees with FIPUG.*

ISSUE 7: If the Commission authorizes clause recovery of the CR3 Uprate Project, what reports, if any, should PEF be required to file with the Commission?

WHITE SPRINGS POSITION: *Agrees with FIPUG.*

ISSUE 8: Should this docket be closed?

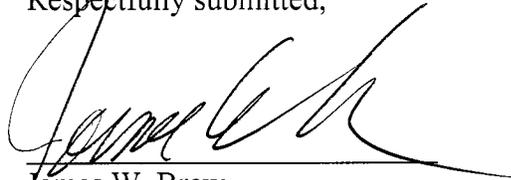
WHITE SPRINGS POSITION: *Yes.*

Conclusion

For the reasons stated above, White Springs urges the Commission to deny the Progress Energy request for fuel clause recovery of its proposed CR3 uprate. The

proposal violates PEF's 2005 Rate Stipulation, and the uprate costs can be timely addressed in the utility's next base rate case. The accelerated recovery and guaranteed return that Progress Energy proposes are not in the public interest and should be rejected.

Respectfully submitted,



James W. Brew

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CERTIFICATE OF SERVICE

I, **HEREBY CERTIFY** that a true and correct copy of the foregoing document sponsored by White Springs has been furnished by Federal Express this 27th day of August, 2007, to the following:

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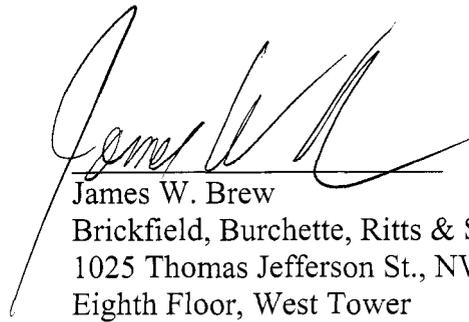
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Projected CR3 Uprate Fuel Savings
per Javier Portuondo Late-Filed Deposition Exhibit 3
Exhibit 29

Year	Projected Annual Fuel Cost savings (\$ millions)	Uprate Revenue Requirement (to be Recovered) (\$ millions)	Net Savings for Consumers (\$ millions)
2008	7.91	7.20	0.71
2009	6.31	1.47	4.84
2010	20.24	19.68	0.56
2011	25.87	31.60	-5.73
2012	96.63	97.85	-1.22
2013	85.47	92.11	-6.64
2014	88.54	86.44	2.10
2015	84.26	80.82	3.44
2016	96.31	75.10	21.21
2017	93.78	69.43	24.35
Totals	605.32	561.70	43.62
%		93%	7%