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 18, 2004

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

FROM: Division of Economic Regulation (Wheeler) DAW TGP
Office of the General Counsel (Brown) MCB JDJ

RE: Docket No. 040085-EI – Petition for approval of new curtailable service rate Schedules CS-3 and CST-3 by Progress Energy Florida, Inc.

AGENDA: 03/30/04 – Regular Agenda – Tariff Filing – Interested Persons May Participate

CRITICAL DATES: 60-Day Suspension Date: 03/30/04

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\040085.RCM.DOC

Case Background

On January 30, 2004, Progress Energy Florida, Incorporated (PEF) filed a petition seeking Commission approval of two proposed new rate schedules: Curtailable General Service – Fixed Curtailable Demand Rate Schedule CS-3 and Curtailable General Service – Fixed Curtailable Demand Rate Schedule CST-3 - Optional Time of Use.

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

Discussion of Issues

Issue 1: Should the Commission approve Progress Energy Florida, Inc.'s (PEF'S) proposed new Curtailable General Service – Fixed Curtailable Demand Rate Schedule CS-3 and Curtailable General Service – Fixed Curtailable Demand Rate Schedule CST-3 - Optional Time of Use

Recommendation: Yes. (Wheeler)

Staff Analysis: Curtailable rates are optional non-firm offerings under which all or a portion of the customer's electric load is subject to curtailment during periods when the utility requires the released power to serve its firm customers or to supply emergency power to other utilities to serve their firm load. Curtailable customers must reduce their electric load when requested to do so by the utility, and if they fail to do so, they pay a substantial penalty.

PEF is requesting approval of two new curtailable rate schedules: Curtailable General Service - Fixed Curtailable Demand Rate Schedule CS-3 (CS-3) and Curtailable General Service - Fixed Curtailable Demand Rate Schedule CST-3 - Optional Time of Use (CST-3). These rate schedules are optional. They are available to non-residential customers whose monthly demands are 2,000 kilowatts (kW) or higher and who agree to curtail at least 2,000 kW when requested.

Under PEF's existing available CS-2 and CST-2 curtailable rate schedules, customers must have a maximum monthly demand of at least 500 kW to qualify for service. Customers must specify a level of non-curtailable (i.e., firm) demand that cannot exceed 75% of their average maximum monthly demand. When PEF requests a curtailment, customers must reduce their demand to this level, or face a penalty. For example, a customer whose monthly maximum demand is 1,000 kW must agree to reduce its demand during periods of curtailment to at least 750 kW, a 25% reduction in demand. Thus, under the existing curtailable rates customers must commit to a reduction of at least 25% of their maximum demand, regardless of the amount of load the customer can curtail.

The proposed new CS-3 and CST-3 rate schedules are available to customers whose maximum monthly demands exceed 2,000 kW. In addition, customers must agree to curtail at least 2,000 kW when requested to do so by the utility. This differs from the existing curtailable rate schedules that require the customer to curtail at least 25% of their maximum demand. The new proposed rate schedule will thus allow customers who are able to curtail a significant level of load to qualify for curtailable service, even though their curtailable load is less than 25% of their total load.

As an example of a customer that would take service under the proposed new rate, PEF cites a customer with an average monthly demand that exceeds 20,000 kW, and has on-site back-up generation that could be used to allow it to curtail its demand by 4,000 kW when necessary. Because this represents only about 20% of the customer's average demand, the customer does not currently qualify for curtailable service because the 25% threshold is not met. By specifying a minimum amount of load that is curtailed, rather than a percentage, the new rates allow large customers who do not qualify under existing rates but are able to provide significant levels of curtailable load, to be eligible for curtailable service.

There are two primary differences between the manner in which the existing and proposed curtailable rates schedules are administered. First, under the proposed rates schedules, customers are paid a credit that is based on their specified level of curtailable demand. This differs from the existing curtailable rate schedules under which the credit is paid based on the difference between the customer's maximum kW for the month and the customer's specified level of firm demand. Second, the CS-3 and CST-3 customers will be deemed to have complied with their requirement to curtail if its demand during the curtailment period is lower than that for the period immediately prior to the curtailment by at least the level of its specified level of curtailable demand. This differs from the existing curtailable rates that require the customers to reduce demand to their specified level of firm demand. In all other material respects, the rates, charges, terms and conditions of the proposed CS-3 and CST-3 rates schedules are the same as the existing curtailable rates.

Staff recommends that the proposed new rate schedules be approved. The new rates will allow customers who do not qualify under existing curtailable rates to provide significant levels of curtailable load to PEF's system which would not otherwise be available. This will provide benefits to all of PEF's ratepayers.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, this tariff should become effective on March 30, 2004. If a protest is filed within 21 days of the issuance of the order, this 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: Yes. If Issue 1 is approved, this tariff should become effective on March 30, 2004. If a protest is filed within 21 days of the issuance of the order, this 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.