Progress Energy

February 15, 2006

Ms. Blanca S. Bayo, Director
Division of Commission Clerk and
Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Progress Energy Florida, Inc.'s Responses to Final Audit Report of 2004 Storm Damage Cost Recovery Audit (Audit Control No. 05-270-2-1); *Docket No. 041272-EI*

Dear Ms. Bayo:

Attached is Progress Energy Florida, Inc.'s ("PEF") responses to the Storm Damage Cost Recovery final audit report dated January 9, 2006.

Please call me should you have any questions.

Sincerely,

John T. Burnett

Progress Energy Florida, Inc.
P.O. Box 14042
St. Petersburg, FL 33733

Audit Disclosure No. 1-Recalculation of Burdening Cost

In its Audit Disclosure 1, Staff opines that PEF's calculation for burdens applicable to sweeps capital costs was overstated by $38,316. Based on that opinion, Staff recommends that these dollars should be removed from recoverable O&M expenses for the storm recovery proceeding since these amounts are capital costs that were included in base rates set after the most recent rate case.

PEF disagrees with Staff's opinion and recommendation since the storm related capital expenditures have been deducted from the total storm costs that the Company is recovering. The adjustment that needs to be made to correct PEF's error in its original burden calculations is to increase the amount that is being recovered through the storm surcharge. The Company has made an adjusting entry to correct this error and will include the effect of this adjustment in the true-up filing in September 2006.

The capital costs for the storms included in the Company's last base rate proceeding were an estimate because actual costs were not known at that time and numerous entries have been made on the books since the date of that filing to true-up the storm costs. The actual storm related capital costs that the Company has incurred are greater than what was included in the rate case; therefore, storm related rate base is currently understated.

Audit Disclosure No. 2-Test of plant additions

In its Audit Disclosure 2, Staff concludes that PEF did not provide documentation for twenty-four transactions selected for testing in the audit. Staff goes on to recommend that PEF's total recoverable expenses should be reduced by $388,353 unless and until PEF can provide sufficient documentation to support these plant additions.

During the audit test work, PEF had several discussions with the FPSC Audit Staff regarding this request. The Staff originally asked to see the corresponding transfer out of inventory for all transactions greater than $10,000 that were charged to the storm capital projects. There were numerous transactions for each storm. The Company provided the requested information for all transactions except those included in the $388,353 referenced above. PEF explained to the auditor that the transactions included in the $388,353 were batches and although the total of the batch was greater than $10,000, each batch could be made up of several transactions that each, by themselves, were less than the $10,000 threshold level. PEF explained that providing the detailed transactions comprising each of these batches would be extremely burdensome. The auditor then agreed that for these transactions PEF only needed to provide the details supporting two transactions in each batch. The documentation supporting these transactions is provided on the attached workpaper. This workpaper shows the details of the transfers of parts out of inventory and the corresponding charge to the storm project. This documentation is the same as the documentation that was provided for all of the other transactions that the auditor tested. Therefore, it is PEF's opinion that this will be sufficient to meet the auditor's requirements and no adjustment needs to be made.

Audit Disclosure No. 3-Compliance with approved methodology

In its Audit Disclosure 3, Staff states that as of the audit date, PEF has not provided a verification of the methodology and amount(s) used to determine the appropriate capitalization of capital expenditures and the booking of "normal" expenses.

PEF calculated the amount of storm costs eligible for recovery by subtracting the "normal" costs of the new plant additions from the total storm costs.

With this response, PEF has provided an excerpt from Mark Wimberly's testimony which was filed in Docket 041272. This testimony explains how the capitalized storm costs were computed. PEF has also provided Audit Staff with detailed calculations in both electronic and hard copy form for each storm that demonstrate these calculations were done in accordance with FPSC Order PSC-05-0748-FOF-EI. Those calculations are provided again here as an attachment to this response.

Audit Disclosure No. 4-Hotel Room Attrition Costs

In its Audit Disclosure 4, Staff recommends that $142,932 should be removed from storm restoration costs as a result of over-booking at the Gaylord Palms Resort. Staff also recommends that an investigation be initiated into lodging costs charged to storm recovery expenses to determine the prudence, relevance, and reasonableness of these costs.

With respect to both the Gaylord Palms Resort and other lodging used during hurricane response and restoration, there were several staging and logistics sites set up in PEF's service territory, and crews were mobilized from site to site depending on the storm needs. At times, there were multiple crew personnel utilizing the hotel rooms at the Gaylord Palms resort as well as other hotels in the area. The rooms at these hotels were contracted in blocks with enough space for the estimated crews that were being sent. It was impossible to know in advance the exact numbers of employees and contractors that would be staying on any given night at any given hotel. Therefore, to ensure sufficient lodging, it was critical that the company have enough rooms reserved in advance. The crews were moved in and out of staging sites and hotel rooms throughout the duration of the hurricane response and restoration effort and were placed where needs were most critical. This was a dynamic and fluid process and the number of rooms required changed throughout each day. Thus, PEF did not have any reasonable option but to book rooms in a manner that ensured hurricane crews would have a place to sleep, eat, shower, and change clothes as they were deployed throughout various regions. If PEF had attempted to cancel rooms, re-book them as needs changed for various numbers of personnel, and then cancel and re-book them again if circumstances changed further, PEF crews would have been left without lodging. Furthermore, while some of the hotels that PEF worked with were sympathetic to PEF's changing needs and gave PEF refunds for rooms that were not used, most hotels required PEF to book and pay for rooms whether or not they were actually used. Those hotels, as businesses operating for profit, simply could not guarantee PEF that rooms would be available for PEF crews unless PEF booked and paid for those rooms.

Considering the circumstances under which PEF was forced to operate to ensure that sufficient lodging was available for personnel performing hurricane response and restoration work, the costs that PEF incurred were both reasonable and prudent. Therefore, no costs for hotel lodging should be removed, and there is no need for Staff to initiate any further investigation into hotel lodging costs.