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R. ALEXANDER GLENN
Deputy General Counsel - Florida

By Hand Delivery and Electronic Mail

June 8, 2006

Jennifer Brubaker, Esq.
Senior Attorney
Florida Public Service Commission
Capitol Circle Office Center
2450 Shumard Oak Blvd
Tallahassee, FL 32399-0850

Re: Docket No. 041272-EI - Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Dear Ms. Brubaker:

This letter provides Progress Energy Florida's ("PEF") responses to the questions set forth in your May 19, 2006 letter to me. Questions 8-14, 18 and 19 either request clarification of the terms of the April 26, 2006 Stipulation and Settlement Agreement (the "Stipulation") or address the intent of the parties as to the terms of the Stipulation. The other signatories to the Stipulation have reviewed the below responses to those questions and support them.

- CMP _____
- COM _____
- CTR _____
- ECR _____
- GCL _____
- OPC _____
- RCA _____
- SCR _____
- SGA _____
- SEC 1
- OTH _____

1. Please provide the total amount of any storm-related damages incurred during the 2005 storm season by storm (please see for example Exhibit MVW-1, attached to the Direct Testimony of Mark V. Wimberly, filed November 24, 2004, in Docket No. 041272-EI).

Response: Please see attached summary.



Response to Q1_Storm Summary_

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2. Please provide the amount of any 2005 storm-related damages that were charged to the storm damage reserve.

Response: No storm-related damages have been charged to the reserve as of yet; however, the retail O&M portion (\$6.6 million) of the 2005 storm expenditures will be charged to the storm reserve by June 2006. Please see response to Question 1 above.

3. Please provide a schedule reconciling any differences between the total amount of any 2005 storm-related damages incurred and the amount that was charged to the storm damage reserve. This schedule should show adjustments such as insurance reimbursements, amounts capitalized, etc.

Response: Please see attached summary and response to Question 2 above.



Response to
Q3_Storm Summary_

4. Based on the one-year extension of the current storm cost recovery surcharge, please provide a calculation of the additional amount of revenues that will be collected through the surcharge from August 2007 through July 2008 (please see for example Exhibit JP-2, attached to the Direct Testimony of Javier Portuondo, filed November 24, 2004, in Docket No. 041272-EI).

Response: Although the request was to provide the projected balance in the same format as Exhibit JP-2, we had previously prepared a document containing all of the same data points; however, it is presented differently. This schedule is attached for your review. If, upon your review, the document does not meet your needs and you would still like it in the JP-2 format, please let us know and we will direct our attention to its preparation.



Response to
Q4_Surcharge Reven

5. Please provide an updated version, as of March 31, 2006, of Exhibit JP-1, that was attached to the Direct Testimony of Javier Portuondo, filed November 24, 2004, in Docket No. 041272-EI.

Response: Please see attached summary.



Response to Q5_
Exhibit JP-1_jpchange

6. If any storm-related damages were incurred during 2005 and charged to the storm damage reserve, please explain whether PEF followed the methodology that was approved in Order No. PSC-05-0748-FOF-EI? If not, please explain which methodology was used and why, and what the differences between the two methodologies were.

Response: PEF followed the recovery methodology approved in Order No. PSC-05-0748-FOF-EI.

7. Please explain whether the replenishment of the storm damage reserve is on a funded or unfunded basis?

Response: The replenishment of PEF's storm reserve is on an unfunded basis consistent with how PEF has historically administered its reserve.

8. Please explain whether it is the intent of the parties that the Commission's approval of the Stipulation would authorize PEF to automatically implement the 80% interim surcharge without any further action, review or approval from the Commission?

Response: It is the intent of the parties that the Commission's approval of the Stipulation would authorize PEF to automatically implement the 80% interim surcharge, upon 30 days notice to the customers and subject to refund, without any further action by the Commission. However, PEF would, in parallel, file a notice and revised tariff sheets with the Commission and would ultimately file a petition with the Commission for recovery of all prudently incurred storm recovery costs and for replenishment of any storm reserve depletion. The recovery mechanism could be either through a surcharge, securitization or base rate relief. In addition, it is the intent that PEF would be able to seek approval from the Commission to collect 100% of any storm costs in any such filing, as well as immediate collection of the remaining 20% of storm costs, also subject to refund. The other parties to the Stipulation would not be prohibited from challenging recovery of the remaining 20% on an interim basis, nor would they be prohibited from challenging any part or aspect of PEF's requested storm cost recovery on a permanent basis

9. If the implementation of the 80% surcharge is not automatic, please explain whether it is the intent of the parties that PEF would have to file a formal petition and revised tariffs with the Commission before it could implement the 80% interim surcharge contemplated in Provision 3 of the Stipulation?

Response: Please see response to Question 8 above.

10. If the implementation of the 80% surcharge is not automatic, please explain whether it is the intent of the parties that PEF must seek Commission approval before it can issue the 30 days notice to its customers that is contemplated in Provision 3 of the Stipulation?

Response: Please see response to Question 8 above.

11. Please explain whether it is the intent of the parties that PEF can seek up to 100% recovery of its storm restoration costs, i.e., the additional 20% not included in the 80% interim surcharge?

Response: Please see response to Question 8 above.

12. If PEF can seek 100% recovery of its storm restoration costs, please explain how the interim surcharge would ultimately be affected; i.e., would it be extended, increased, etc.?

Response: Please see response to Question 8 above. In addition, whether to increase or to extend any existing surcharge related to the additional 20% would be subject to determination by the Commission based on the facts and circumstances at the time of any storm reserve depletion.

13. There is no cumulative dollar threshold or time limitation in Provision 3 of the Stipulation regarding the implementation of the 80% interim surcharge. Please explain whether it is the parties' intent that PEF would not have to meet any cumulative dollar thresholds or time limitations before implementing the 80% interim surcharge?

Response: It is the parties' intent that PEF will not be required to meet any cumulative dollar thresholds or time limitation before implementing any interim surcharge.

14. Provision 2 of the Stipulation provides for the calculation of interest on the storm reserve. Please explain whether this means that PEF will calculate interest on the balance in Account 228.1, Accumulated Provision for Property Insurance, and increase Account 228.1 by that amount? If not, please provide an explanation of the interest provision.

Response: PEF will calculate interest on the after tax balance in Account no. 228.1 - Accumulated Provision for Property Insurance and will increase Account no. 228.1 by that amount.

15. If the extension of the surcharge is approved, please explain whether PEF intends to record its net 2005 storm costs as a regulatory asset in Account No. 182.1, Extraordinary Property Losses? If not, please explain PEF's proposed accounting treatment.

Response: No, PEF does not intend to record its net 2005 storm costs as a regulatory asset in Account no. 182.1 - Extraordinary Property Losses. PEF will record the 2005

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storm costs to the storm reserve account. PEF's accounting treatment will be to debit Account no. 228.1 - Accumulated Provision for Property Insurance and credit Account no. 186.1 - Job Orders for the net 2005 storm costs.

16. Assuming that there are no charges against the reserve during the August 2007 to July 2008 extension of the surcharge, please explain what the expected balance for the storm reserve at December 31, 2007, and July 31, 2008, would be? This should include the annual \$6 million accrual.

Response:

| | |
|---------------------------|--------------|
| Beg. Balance – 01/01/06 | \$ 5,566,000 |
| Reserve Accrual - base | \$ 5,566,000 |
| 2005 Storm Expenses* | \$ 6,590,108 |
| Ending Balance – 12/31/06 | \$ 4,541,892 |

| | |
|---------------------------|---|
| Beg. Balance – 01/01/07 | \$ 4,541,892 |
| Reserve Accrual - base | \$ 5,566,000 |
| Surcharge Replenishment | \$ 56,817,975 (August 2007 – December 2007) |
| Interest – surcharge | \$ 464,584 |
| Ending Balance – 12/31/07 | \$ 67,390,451 |

| | |
|---------------------------|--|
| Beg. Balance - 01/01/08 | \$ 67,390,451 |
| Reserve Accrual – base | \$ 3,246,833 |
| Surcharge Replenishment | \$ 73,663,750 (January 2008 – July 2008) |
| Interest | \$ 1,761,399 |
| Ending Balance – 07/31/08 | \$146,062,433 |

* Note: Costs associated with Hurricanes Dennis, Katrina and Wilma will be booked June 1, 2006.

17. Provision 4 of the Stipulation provides for the calculation and collection of interest on the claimed costs for storm-recovery activities for future storms. Please explain in what account(s) this interest will be recorded?

Response: The calculation of interest expense will be recorded as a debit to Account no. 431 – Interest Expense and a credit to Account no. 228.1 - Accumulated Provision for Property Insurance.

18. Please explain when the calculation of interest in Provision 4 of the Stipulation commences?

Response: If the storm costs of a future claim exceed the balance of the storm reserve, resulting in a debit balance to account no. 228.1, PEF will begin calculating interest on the debit balance after the storm costs are recorded to the account.

Jennifer Brubaker, Esq.

June 8, 2006

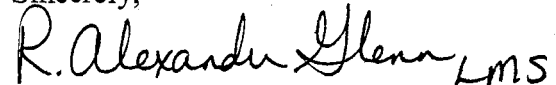
Page 6

19. Please explain whether the interest in Provision 4 of the Stipulation is calculated on the after-tax balance of the claimed costs for storm-recovery activities?

Response: Yes, the interest is calculated on the after-tax balance of the claimed costs for storm-recovery activities.

The Commission is currently scheduled to vote on the Stipulation at its August 29, 2006 Agenda. In order to provide PEF more certainty during the 2006 hurricane season, PEF requests that the Commission consider addressing the Stipulation at an earlier Agenda Conference. Please do not hesitate to contact me if you have any questions.

Sincerely,


R. Alexander Glenn

cc: Division of the Commission Clerk and Administrative Services
Office of Public Counsel (McLean)
Florida Retail Federation (Wright)
Florida Industrial Power Users Group (McWhirter)
AARP, Buddy L. Hansen, and Sugarmill Woods Civic Association, Inc.
(Twomey)



Major Storm Summary - Damages incurred for PEF in 2005
 Whole Dollars

| 2005 PEF System Storm Damages - Capital and O&M Split | | | | | |
|---|-------------------------|---|-------------------|---------------------|---------------------|
| Line No. | Total System Storm Cost | | Capital | O&M | Retail O&M |
| 1 | <u>\$ 3,592,384</u> | Total Hurricane Dennis Estimate | | | |
| 2 | | Capital / O&M Split - Book Basis: 24% / 76% | \$ 857,331 | \$ 2,735,053 | \$ 2,676,525 |
| 3 | | | | | |
| 4 | <u>\$ 736,398</u> | Total Hurricane Katrina Estimate | | | |
| 5 | | Capital / O&M Split - Book Basis: 0% / 100% | \$ - | \$ 736,398 | \$ 719,984 |
| 6 | | | | | |
| 7 | <u>\$ 3,321,179</u> | Total Hurricane Wilma Estimate | | | |
| 8 | | Capital / O&M Split - Book Basis: 1% / 99% | \$ 50,000 | \$ 3,271,179 | \$ 3,193,598 |
| 9 | | | | | |
| 10 | <u>\$ 7,649,961</u> | Total Storms | <u>\$ 907,331</u> | <u>\$ 6,742,630</u> | <u>\$ 6,590,108</u> |



Progress Energy Florida
04/30/06

SUMMARY

**Question 3 - Attachment
PEF Response to Storm Reserve
Settlement Data Request
Dkt# 041272-EI**

| | STORM: DENNIS | | STORM: KATRINA | | STORM: WILMA | | Jurisdictional Rate (1) | Retail O&M | Wholesale O&M |
|--|---------------------|---------------------|-------------------|-------------------|---------------------|---------------------|----------------------------|---------------------|-------------------|
| | O&M | Capital | O&M | Capital | O&M | Capital | | | |
| Total Storm Costs: | | | | | | | | | |
| Distribution | \$ 2,734,275 | \$ 857,331 | \$ 630,643 | \$ - | \$ 3,062,958 | \$ 50,000 | | | |
| Transmission | 188,612 | - | 8,734 | - | 220,601 | - | | | |
| Customer Service Center | 2,213 | - | - | - | 35,153 | - | | | |
| Service Company | 222,005 | - | 152,783 | - | 447,661 | - | | | |
| Generation | - | - | - | - | 881 | - | | | |
| Total Storm Costs | <u>\$ 3,147,105</u> | <u>\$ 857,331</u> | <u>\$ 792,160</u> | <u>\$ -</u> | <u>\$ 3,767,254</u> | <u>\$ 50,000</u> | | | |
| Adjustments consistent with 2004 Order: | | | | | | | | | |
| Distribution Regular Payroll | \$ 226,133 | \$ - | \$ 26,745 | \$ - | \$ 222,785 | \$ - | | | |
| Transmission Regular Payroll | 26,247 | - | - | - | 56,344 | - | | | |
| Service Company Regular Payroll | 5,815 | - | 22,274 | - | 44,424 | - | | | |
| Fleet Services Loader | 153,857 | - | 6,743 | - | 172,522 | - | | | |
| Total Adjustments | <u>\$ 412,052</u> | <u>\$ -</u> | <u>\$ 55,762</u> | <u>\$ -</u> | <u>\$ 496,075</u> | <u>\$ -</u> | | | |
| Net Storm Costs: | | | | | | | | | |
| Distribution | \$ 2,508,142 | \$ 857,331 | \$ 603,898 | \$ - | \$ 2,840,173 | \$ 50,000 | 99.781% | \$ 5,939,177 | \$ 13,035 |
| Transmission | 162,365 | - | 8,734 | - | 164,257 | - | 71.263% | 238,985 | 96,371 |
| Customer Service Center | 2,213 | - | - | - | 35,153 | - | 98.231% | 36,704 | 661 |
| Service Company | 62,333 | - | 123,766 | - | 230,714 | - | 89.835% | 374,445 | 42,369 |
| Generation | - | - | - | - | 880.50 | - | 90.454% | 796 | 84 |
| Total Net Storm Costs | <u>\$ 2,735,052</u> | <u>\$ 857,331</u> | <u>\$ 736,398</u> | <u>\$ -</u> | <u>\$ 3,271,178</u> | <u>\$ 50,000</u> | | <u>\$ 6,590,108</u> | <u>\$ 152,521</u> |
| Subtotal | | \$ 3,592,384 | | \$ 736,398 | | \$ 3,321,178 | | | |

**Question 4 - Attachment
PEF Response to Storm Reserve
Settlement Data Request
Dkt# 041272-EI**



**Storm Cost Recovery
Surcharge Recovery**

| | Aug-07 | Sep-07 | Oct-07 | Nov-07 | Dec-07 | Jan-08 | Feb-08 | Mar-08 | Apr-08 | May-08 | Jun-08 | Jul-08 | Aug 07-Jul 08 12 Month Scenario |
|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|------------------------------------|
| Beginning Storm Reserve | - | 12,944,492 | 25,827,159 | 37,456,693 | 47,457,663 | 57,183,887 | 67,422,638 | 77,393,573 | 87,000,784 | 96,737,085 | 107,026,929 | 119,167,719 | - |
| Amortization Expense | 12,928,940 | 12,836,084 | 11,553,501 | 9,898,950 | 9,600,501 | 10,089,041 | 9,796,944 | 9,409,697 | 9,515,548 | 10,045,029 | 11,869,026 | 12,938,465 | 130,481,725 |
| Interest @ 4.70% | 15,552 | 46,583 | 76,033 | 102,021 | 125,723 | 149,710 | 173,991 | 197,513 | 220,754 | 244,815 | 271,764 | 302,259 | 1,926,718 |
| Ending Unamortized Balance | 12,944,492 | 25,827,159 | 37,456,693 | 47,457,663 | 57,183,887 | 67,422,638 | 77,393,573 | 87,000,784 | 96,737,085 | 107,026,929 | 119,167,719 | 132,408,442 | 132,408,442 |
| % Allocated To Residential | 62% | 61% | 59% | 54% | 55% | 60% | 60% | 56% | 54% | 54% | 58% | 61% | 58% |
| Residential Expense | 8,015,354 | 7,876,354 | 6,825,800 | 5,336,960 | 5,314,657 | 6,009,496 | 5,855,513 | 5,306,974 | 5,110,674 | 5,411,435 | 6,926,825 | 7,923,576 | 75,913,617 |
| Retail sales | 4,091,437 | 4,062,052 | 3,656,171 | 3,132,579 | 3,038,133 | 3,192,735 | 3,100,299 | 2,977,752 | 3,011,249 | 3,178,807 | 3,756,021 | 4,094,451 | 41,291,685 |
| Residential Sales | 2,220,320 | 2,181,815 | 1,890,803 | 1,478,382 | 1,472,204 | 1,664,680 | 1,622,026 | 1,470,076 | 1,415,699 | 1,499,012 | 1,918,788 | 2,194,896 | 21,028,703 |
| Retail Price Impact (\$/mwh) | 3.16 | 3.16 | 3.16 | 3.16 | 3.16 | 3.16 | 3.16 | 3.16 | 3.16 | 3.16 | 3.16 | 3.16 | 3.16 |
| Residential Price Impact (\$/mwh) | 3.61 | 3.61 | 3.61 | 3.61 | 3.61 | 3.61 | 3.61 | 3.61 | 3.61 | 3.61 | 3.61 | 3.61 | 3.61 |

Assumptions:

- *Commercial paper rate of 4.70%
- *Interest applied on average monthly balance
- *Allocation based on expense percentage
- *Interest is calculated on an after-tax basis

**Question 5 - Attachment
PEF Response to Storm Reserve
Settlement Data Request
Dkt# 041272-EI**

**PROGRESS ENERGY FLORIDA
SUMMARY OF STORM DAMAGE EXPERIENCE
(Charges Against Storm Damage Reserve)
For the Period of 1994 - March 31, 2006
(Dollars in Thousands)**

| Year | FERC 228.13 Storm Damage Reserve Beg Balance | FERC 924.20 Expense Accrual & Fund Earns | Storm Damage Incurred | Storm Damage Reserve End Balance | Description |
|---------------|---|---|--------------------------|--|--|
| SYSTEM | | | | | |
| 1994 | 346 | 6,000 | 1 | 6,345 | |
| 1995 | 6,345 | 5,323 | 4,367 | 7,301 | Hurricane Erin - 8/95 / Hurricane Opal 10/95 |
| 1996 | 7,301 | 6,000 | 7 | 13,294 | Expenses from Erin/Opal |
| 1997 | 13,294 | 6,000 | 1,159 | 18,135 | Hurricane Josephine - 10/96 |
| 1998 | 18,135 | 6,000 | - | 24,135 | |
| 1999 | 24,135 | 6,000 | 4,506 | 25,629 | Hurricane Floyd-9/99/ Hurricane Harvey-9/99/ Hurricane Irene-10/99 |
| 2000 | 25,629 | 6,000 | 2,102 | 29,527 | Hurricane Gordan - 9/00 |
| 2001 | 29,527 | 6,000 | 5,896 | 29,631 | Hurricane Gabrielle - 9/01 |
| 2002 | 29,631 | 6,000 | - | 35,631 | |
| 2003 | 35,631 | 6,000 | 715 | 40,916 | Hurricane Henri - 9/03 |
| 2004 | 40,916 | 6,000 | - | 46,916 | |
| 2005 | 46,916 | 5,566 | 46,916 | 5,566 | Hurricanes Charley - 8/04/ Hurricane Frances - 8/04/ Hurricane Ivan - 9/04/ Hurricane Jeanne - 9/04 ¹ |
| RETAIL | | | | | |
| 2006 | 5,566 | 1,392 | - | 6,958 | Balance as of March 31, 2006. Hurricane Wilma - 10/05/ Katrina - 8/05/ Dennis - 7/05 ² |

Notes:

¹ Beginning with the ending balance in 2005, all figures will be shown on a retail basis.

² As noted above, Hurricanes Wilma, Katrina, and Dennis occurred in 2005; however, the retail storm costs associated with these storms (\$6.6M) will be applied in June 2006.