



Progress Energy

Writer's Direct Dial No. (727) 820-5184

August 25, 2006

Ms. Lisa Bennett, Esquire
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Staff Data Request; Docket No. 060001-EI

Dear Lisa:

Please find attached Progress Energy Florida, Inc.'s responses to Staff's data request dated August 18, 2006. Please feel free to contact me should you have any questions.

Sincerely,

John T. Burnett LMS
John T. Burnett

JTB/lms

Cc: Parties of Record
Division of Commission Clerk (Docket File)
Division of Economic Regulation (Lester)
Division of Regulatory Compliance and Consumer Assistance (Vandiver)
Jack Shreve – Attorney General's Office
Charles Beck – Office of Public Counsel

PEF RESPONSES TO STAFF DATA REQUEST DATED AUGUST 18, 2006
DKT# 060001-EI

1. **Please explain PEF's plans for using firm natural gas storage. Include the following in the explanation:**

- when PEF plans to begin using natural gas storage
- the planned amount of firm storage capacity
- how PEF will recover the costs of natural gas storage
- how PEF will report the costs of natural gas storage

Answer:

Please see PEF's responses to Questions 2, 3 and 4 to Staff's informal questions submitted on July 26, 2006 and discussed at the July 27, 2006 Fuel Status Meeting.

PEF has executed two high deliverability storage service agreements beginning in May 2008 with a term of 5 years. During the months of June through October, the agreements have combined firm storage capacity of 1,250,000 MMBtu's with firm daily withdrawal capacity of 125,000 MMBtu's. For November through May the agreements have combined firm storage capacity of 1,000,000 MMBtu's with firm daily withdrawal capacity of 100,000 MMBtu's. This storage was purchased to provide greater gas supply reliability for short-term curtailments that could occur because of hurricanes or other weather related events. It is expected that natural gas storage demand costs, storage injection and withdrawal costs, and related gas purchases for storage will be recovered through the fuel and purchased power cost recovery clause in the same manner as gas supply and transportation costs are currently recovered on an as burned basis. Natural gas storage injections will be reported as increases to natural gas inventory. Storage demand costs, injection and withdrawal costs, and associated withdrawals of gas from inventory will be expensed on an as burned basis.

2. **What is PEF's definition of physical hedging? Please provide examples.**

Answer:

Physical hedging can be defined as the procurement of a fixed volume of natural gas for expected generation needs from a supplier at a fixed price per MMBtu. An example of a physical hedge executed by PEF was the procurement of physical natural gas from a supplier for the months of May through October 2006 delivered to Destin into Gulfstream at a fixed price per MMBtu. PEF's objectives of executing physical hedges are to provide physical supply, mitigate price risk and volatility, provide greater price certainty and smooth out prices over time, and maintain a diverse portfolio of volumes and prices over time.

3. **For each fossil fuel PEF burns, at what point in the transportation chain does it take ownership?**

Answer:

- Coal – PEF takes ownership when the coal is loaded on a train or barge.
- Heavy Oil – PEF takes ownership when heavy oil is delivered to the plants.

- Light Oil – Most of PEF’s suppliers deliver light oil by truck directly to the plants where PEF takes ownership. One of PEF’s suppliers ships light oil by barge. PEF takes ownership of this product when it is loaded on the barge.
- Natural Gas – PEF takes ownership of natural gas at PEF’s contractual receipt points which include pipeline interconnects, pipeline pooling points, and various other delivery points along the transportation chain. When the natural gas storage service agreements described in No. 1 above become effective beginning May 2008, PEF will own the gas that is held in the respective third party storage facility..

4. **For each fossil fuel, at what points in the transportation chain is the fuel considered fuel inventory of PEF?**

Answer:

Fuel is considered fuel inventory when PEF takes ownership.

5. **For each fossil fuel, if fuel storage is utilized, indicate whether there is fuel stored both on-site and off-site.**

Answer:

- Coal – Fuel is stored both on-site and off-site.
- Heavy Oil – Fuel is stored on-site only.
- Light Oil – Fuel is stored both on-site and off-site
- Natural Gas – PEF does not currently store natural gas. However, as described in No. 1 and 3 above, natural gas will be stored off-site beginning in May 2008.

6. **For off-site storage, identify which costs of storage are recovered through the fuel clause and which costs are recovered through base rates. For any fee or charge recovered through the fuel clause, state the utility’s rationale for recovery of those costs through the fuel clause as opposed to base rates. When providing the rationale please cite applicable rules or orders.**

Answer:

All costs associated with off-site storage are recovered through the fuel clause. The following are specific costs recovered through the fuel clause for each applicable fuel type.

- Coal – Fuel is stored off-site at two locations at the mouth of the Mississippi River. PEF does not pay a fee for the storage itself. Rather, PEF pays a transloading fee per ton when the coal is unloaded from river or ocean vessels into stockpiles or gulf barges.
- Light Oil – Currently PEF stores light oil at a terminal owned by Martin Gas Terminals in Tampa, FL. Costs associated with this storage facility include fees for tank capacity as well as a cost/gallon to input or withdraw the oil.
- Natural Gas – Although PEF does not currently have off-site storage for natural gas, beginning in May 2008, PEF expects to recover the demand costs as well as storage injection and withdrawal costs through the fuel clause.

Rationale: PEF currently recovers, or expects to recover in the case of natural gas, these off-site storage costs through the fuel clause. These storage costs are associated with transporting fuel to PEF's terminals that are dedicated to the supply of its generating plants. Furthermore, the cost of storage fluctuates with the volume of fuel stored. FPSC Order No. 14546, July 8, 1985, states the following:

Transportation Charges. The costs associated with moving fuel to fuel storage locations and terminals dedicated to the supply of a utility's generating facility are subject to significant changes due to fluctuations in distances, deliveries, volume and price. Consequently, such costs should be recovered through fuel adjustment clauses.

7. **For on-site storage, identify which costs of storage are recovered through the fuel clause and which costs are recovered through base rates. For any fee or charge recovered through the fuel clause, state the utility's rationale for recovery of these costs through the fuel clause as opposed to base rates. When providing the rationale please cite applicable rules or orders.**

Answer:

All costs of on-site storage are recovered through base rates.

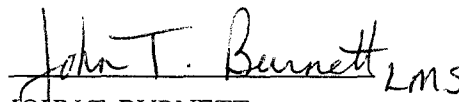
8. **If fuel carrying costs are applicable to any fuel storage, indicate whether these costs are recovered through the fuel clause or base rates. Is there a difference in treatment of on-site vs. off-site storage? What is your rationale for recovery of fuel inventory carrying cost through the fuel clause?**

Answer:

All fuel inventory carrying costs are recovered through base rates with the exception of coal inventory in transit or off-site storage. Pursuant to Stipulation and Settlement approved in Order No. PSC-05-0945-S-EI, Docket No. 050078-EI, dated September 28, 2005, PEF is recovering the carrying costs of inventory in transit. Item 16 on Page 22 states, "PEF will collect through the fuel recovery clause its carrying costs of fuel inventory in transit..."

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of PEF's Responses to Staff's Data Request in Docket No. 060001-EI has been furnished via U.S. Mail this 25th day of August, 2006 to all parties of record as indicated below.


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