

September 25, 2006

Mr. Tim Devlin  
Dir. Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

*Re: Docket No. 060162-EI – Petition by Progress Energy Florida, Inc. for approval to recover modular cooling tower costs through the fuel cost recovery clause.*

Dear Mr. Devlin:

The following issue was voted upon at the August 29, 2006, agenda conference:

Should the Commission approve Progress's request for recovery of the reasonably and prudently incurred costs of its modular cooling tower project through the Environmental Cost Recovery Clause? (to which the Commission Staff recommended approval)

The Commission voted to deny staff's recommendation and on the Commission's own motion, this docket will be set for hearing, with the scope expanded to review the appropriateness of recovery through the ECRC (environmental cost recovery clause) or the fuel clause.

PEF requests permission to defer the costs associated with the modular cooling towers pending a final Commission decision. This request is consistent with Statement of Financial Accounting Standards (FAS) No. 71, which states the following:

9. Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
  - a. It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
  - b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

These criteria have been met because (1) the Commission's own motion does not question the prudence of these costs, (2) the Commission's own motion states that the scope for hearing is a



review of the appropriateness of recovery in ECRC or Fuel clause (3) the staff of the Commission supports recovery and (4) consistent with Commission procedures PEF has included the costs associated with this project in its projected 2007 recovery factor, subject to the Commission's final decision.

PEF proposes to defer the costs associated with the modular cooling towers by capitalizing them in FERC account 186, Miscellaneous Deferred Debits, pending a final Commission decision. The Code of Federal Regulations, Subchapter C, Part 101, states the following:

**186 Miscellaneous Deferred Debits.**

A. For major utilities, this account shall include all debits not elsewhere provided for, such as miscellaneous work in progress, and unusual or extraordinary expenses, not included in other accounts, which are in process of amortization **and items the proper final disposition of which is uncertain.**  
[Emphasis Added]

If the Commission approves the project for clause recovery, PEF will then reclassify these costs from account 186 into the appropriate cost recovery clause.

PEF also respectfully requests that permission be granted within 30 days of this letter. Please feel free to contact me should you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Javier J. Portuondo', written over a white background.

Javier J. Portuondo  
Dir. Regulatory Planning

cc: Blanca Bayo, Dir. CCA