Progress Energy

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February 15, 2008

Via FedEx

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

930867-EI

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COMMISSION CLERK

Dear Ms. Cole:

By order No. PSC-93-1522-FOF-EI, issued October 15, 1993 in Docket No. 930867-EI, Florida Power Corp. d/b/a Progress Energy Florida, Inc. was directed to file an annual report providing updated information on four specific items related to its self-insured program for transmission and distribution line ("T&D") property damage.

The following are changes since our last report for the required items:

1. Update on Efforts to Obtain Traditional T&D Insurance – Since our last report, the property insurance markets continue to be restrictive, especially for Gulf and Atlantic coast locations as a result of the 2004 and 2005 hurricane losses. Traditional insurance coverage for storm related damage to T&D facilities at reasonable costs and deductible levels on a stand-alone basis remains effectively unavailable.

2. Status of the Proposed Industry-Wide T&D Program – In 2006, the four Florida investor owned utilities (IOUs), in conjunction with other IOUs with hurricane exposed transmission and distribution facilities in the Gulf and Atlantic coastal regions, initiated a project to investigate a feasible risk financing alternative to cover transmission and distribution storm damage. The option of developing an industry mutual insurance company and/or risk purchasing group was appealing to the group. After initial discussions, the focus became to seek mutual coverage for overhead distribution assets only, with premium cost, deductibles and loss payments based on modeled events. Modeled loss coverage was considered the most likely approach to attract insurance market interest. In an effort to simplify the model and to encourage group participation the members also elected to explore coverage solely for above ground distribution lines. In addition, it became clear that the market would only be willing to supply coverage for more infrequent storms, those in the once in 75 year frequency category and above, hence the coverage focus was for catastrophic storms with a high deductible/ self insured retention.

   This activity continued through 2007, and the four Florida IOUs continued to participate as several of the other IOUs dropped out of the group. In May 2007 the Florida IOUs made a presentation on their progress to date to a Florida PSC staff workshop and then later provided the staff answers to some informal questions.

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Possible risk financing alternatives explored by the group have included: group captives (a/k/a industry mutual) insurance, commercial insurance, capital market solutions and public/private insurance pools for natural catastrophes.

There have been numerous hurdles to success of the project, including: understanding of coastal wind and flood exposures, developing an acceptable loss forecasting model, subjective perceptions and acknowledged limitations of predictive models, gaining participants' confidence in the equity of the underwriting model and cost allocations, seeking market underwriting of the risk, attempting to finance a "frequency of severity" risk profile, assembling a critical mass portfolio of companies willing to pool risk, size of premiums and exposure to retrospective calls.

The Florida IOUs and other participants in the group hired outside experts to model their respective overhead distribution risks and aggregate scenarios were modeled. One member of the group (i.e. a non-Florida member) elected to seek insurance coverage from the insurance market on a stand-alone basis using modeled results, and was successful for the 2007 storm season. Some other members dropped from the group and at least one of those solicited the market on their own as well.

As the group lost membership and became smaller, the idea of a mutual company became untenable and the focus shifted to a buying group concept. However, even though it became more clear that the insurance market was becoming receptive to providing catastrophic insurance, the cost was still high. As of January 2008, the group is still communicating, however no group of members has committed to moving forward yet to seek coverage for the 2008 storm season. Progress Energy Florida continues to be an active member of this group.

3. <u>Update on the Evaluation of Progress Energy Florida's Exposure and the Adequacy of the Storm Damage Reserve</u> – The storm damage reserve was depleted in 2004 by the unprecedented four hurricanes affecting Progress Energy Florida's service area. The Florida PSC approved the recovery of $240.4 million in storm response costs incurred in 2004 over a two year period. Subsequently, the PSC approved an agreement whereby the storm recovery surcharge would be extended by twelve months to allow the Company to replenish the storm reserve fund. In addition, the Company continues to accrue $6 million annually towards the storm reserve and the current balance as of December 31, 2007, is $63.5 million.

4. <u>Feasibility and Cost-Effectiveness of a Risk Sharing Plan Among Investor-Owned Electric Utilities in Florida</u> – See Item 2 above.

As in the past, Progress Energy Florida requests that this letter serve as its annual report for 2008. If a significant change should occur in the Company's exposure, the adequacy of the storm damage reserves, or the cost and availability of traditional insurance, updated information will be provided to the Commission.

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Thank you, and please let us know if there are questions regarding the above information.

Sincerely,

Gary Y. Little

Gary Y. Little
Manager - Insurance
Progress Energy Service Company, LLC

cc: Mr. Tim Devlin - FPSC
Mr. Will Garrett - Progress Energy Florida
Mr. Javier Portuondo - Progress Energy Service Company, LLC
Ms. Lisa Stright - Progress Energy Florida
Ms. Cynthia Lee - Progress Energy Florida