

ORIGINAL



July 22, 2003

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

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Re: Docket No. 030007-EI
Environmental Cost Recovery Audit
Audit Control No. 03-030-2-2

Dear Ms. Bayo:

Enclosed is Progress Energy Florida's response to the recent Staff audit of its 2002 Environmental Cost Recovery True-Up for the 3-month period of October 1, 2002 through December 31, 2002.

If you have any questions, please feel free to contact me at (727) 820-5835.

Sincerely,

Javier Portuondo
Director, Regulatory Services - Florida

JJP:hb
Enclosure

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cc: Mr. Jim Breman, Division of Economic Regulation
Ms. Denise Vandiver, Division of Auditing and Safety
Ms. Lisa Harvey, Division of Competitive Markets and Enforcement
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PROGRESS ENERGY FLORIDA

Response to ECRC Audit, Docket No. 030007-EI, Audit Control No. 03-030-2-2

Disclosure No. 1

Subject: Employee Salaries

Audit Opinion / Recommendation: Employees who were employed prior to 2002 or replace employees that were employed prior to 2002 should not have any of their salary allocated to the ECRC because these costs are already being recovered through base rates. Overtime wages were paid and included in the costs recovered during the last rate case. Therefore, it should not make a difference if the payroll costs are for overtime or regular time. Since the Supervisor of Environmental Services is a new position, it would be appropriate to allocate a portion of this person's salary to the ECRC.

PEF Response: We agree with the recommendation to exclude base payroll on employees of record prior to 2002. However, although the dollar amount is small, we do not agree on the exclusion of overtime as a matter of sound ratemaking practice. Rates are set on normal, recurring costs. Overtime is not a predictable expense and would not have been included in PEF's 2002 rate case expenses. PEF's 2002 rate case budget was set on a projection, not actual historical costs. It has long been the Commission's policy to include overtime in cost recovery clauses, since it is properly considered to be an incremental cost.

Disclosure No. 2

Subject: Oil Spill Clean Up Costs

Audit Opinion/Recommendation: The utility should not be allowed to recover expenses through the ECRC that are already being recovered through base rates. Based on discussions with utility personnel, we believe the approved ECRC programs relate to the systematic investigation of substations and transformers looking for contamination that may have occurred in the past and may not be evident without soil samples. The costs of cleaning up current oil spills or actively leaking equipment should continue to be recovered through base rates as they previously were.

PEF Response: PEF agrees that the purpose of the TRIP Program is to inspect pad mounted transformers on a periodic basis to assess their condition and determine whether there is an active leak of oil or whether there may have been one in the past. If the inspection reveals an oil leak it is scheduled for abatement and remediation (clean-up). The priority assigned to the clean-up phase of TRIP depends on whether the leak is active or inactive. PEF submits that the periodic inspections, and response to the inspection results, are incremental activities approved by the Commission for cost recovery through the ECRC. The program is in response to a new interpretation by DEP that the Agency's jurisdiction under Chapters 376 and 403, Florida Statutes, extends to soil contamination. (See PEF's response to Staff's First Set of Interrogatories, No. 19, including DEP memo dated November 2001).

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Apart from the TRIP Program, PEF responds on an emergency basis, observed or reported to oil leaks of any kind. PEF Agrees that the costs of an ad hoc response to oil leakage wherever it occurs, including pad mounted transformers, are included in base rates and should not be recovered through the ECRC.

Occasionally, customers call to report dissatisfaction with the condition of their transformers. From the stand point of efficiency, if initial inspection reveals a problematic transformer to be non-emergent, but not yet inspected through the TRIP Program, then it would be appropriate to go ahead and make a full TRIP inspection and perform any remediation found to be necessary. PEF submits that the costs of these non-emergent customer initiated TRIP inspections and remediation should be recovered through the ECRC..