

ORIGINAL

Matilda Sanders

From: James A. McGee [jmcgee@tampabay.rr.com]
Sent: Thursday, May 20, 2004 11:29 AM
To: Filings@psc.state.fl.us
Cc: Vandiver, Rob
Subject: Docket No. 040001-EI; Response to Staff CCR Audit Report

This electronic filing is made by
 James A. McGee
 P.O. Box 14042
 St. Petersburg, FL 33733
 727-820-5184
james.mcgee@panmail.com

Docket No. 040001-EI

In re: Fuel and Purchased Power Cost
 Recovery Clause with Generating
 Performance Incentive Factor.

On behalf of **Progress Energy Florida**.

Consisting of **2 pages**.

The attached document for filing is Progress Energy's
**Response to the Capacity Cost Recovery Audit Report
 for the Twelve Months Ended December 31, 2003,**
 including a filing letter.

CMP _____
 COM S _____
 CTR _____
 ECR _____
 GCL _____
 OPC _____
 MMS _____
 RCA _____
 SCR _____
 SEC I _____
 OTH _____

5/20/2004

DOCUMENT NUMBER-DATE
05805 MAY 20 03
 FPSC-COMMISSION CLERK



ORIGINAL

JAMES A. MCGEE
ASSOCIATE GENERAL COUNSEL
PROGRESS ENERGY SERVICE COMPANY, LLC

May 20, 2004

VIA ELECTRONIC FILING

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

Re: Docket No. 040001-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket on behalf of Progress Energy Florida, Inc., is its Response to the Capacity Cost Recovery Audit Report for the Twelve Months Ended December 31, 2003, issued May 10, 2004, (Audit Control No. 04-022-2-2).

Please acknowledge your receipt of the above filing as provided in the Commission's electronic filing procedures. Thank you for your assistance in this matter.

Very truly yours,

s/ James A. McGee

JAM/scc
Enclosures

cc: Office of Public Counsel

DOCUMENT NUMBER - DATE
05805 MAY 20 2004
FPSC-COMMISSION CLERK

DOCKET NO. 040001-EI

**RESPONSE OF PROGRESS ENERGY FLORIDA
TO THE CAPACITY COST RECOVERY AUDIT REPORT FOR
THE TWELVE MONTHS ENDED DECEMBER 31, 2003
(Issued May 10, 2004, Audit Control No. 04-022-2-2)**

In Disclosure No. 1 of the Audit Report, regarding Incremental Security Costs, the auditor opinion states:

“The 2003 incremental security expenses of \$1,180,911 (\$2,109,892 - \$928,981) were a result of the utility's compliance with NRC Order No. EA-02-026 and are properly recovered through the Capacity Cost Recovery Clause. However, the auditor defers to the analyst as to the recovery through the Capacity Cost Recovery Clause of the \$316,408 Capital Modification. According to the utility representative, the capital modifications were reclassified to expense accounts based on the Commission's approval.”

The Commission approval referenced in the above quotation was granted by Order No. PSC-02-1761-FOF-EI. With respect to the auditor's apparent uncertainty as to the recoverability of the Capital Modification because of its reclassification as a current year expense, page 10 of the Commission's order states the following:

We recognize that FPC's incremental 2002 and 2003 security costs, like FPL's incremental 2001 security costs approved in Order No. PSC-01-2516-FOF-EI, arise out of the extraordinary circumstances of the terrorist attacks of September 11, 2001. The record indicates that FPC's incremental 2002 and 2003 security costs were incurred to comply with NRC Order No. EA-02-26, which established the type of protections that operators of nuclear generating facilities in the United States were required to implement at their plants. Prior to the events of September 11, 2001, and the issuance of our order approving fuel clause recovery for FPL's incremental 2001 security costs, security costs were traditionally and historically recoverable through base rates. However, because of the extraordinary nature of the costs in question and the unique circumstances under which they arose, we find that these costs do not clearly fall within the classification of “items which traditionally and historically would be recoverable through base rates.” We believe that our order approving fuel clause recovery for FPL's incremental 2001 security costs, which did not make a distinction between capital items and expensed items, put the parties to the Settlement and Stipulation on notice that the Commission viewed these costs as extraordinary. Accordingly, we approve recovery of FPC's incremental 2002 and 2003 security costs through a cost recovery clause. Because these costs are extraordinary, these costs shall be treated as current year expenses. (Emphasis added.)

The underlined sentence from the Commission's order should eliminate any question that the capital modifications of \$316,408 related to incremental security measures have been appropriately recorded and recovered as current year expenses.

May 20, 2004