Progress Energy

Writer's Direct Dial No. 727-820-5587

R. ALEXANDER GLENN
Deputy General Counsel - Florida

VIA HAND DELIVERY

April 29, 2005

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

Re: Petition for rate increase of Progress Energy Florida, Inc.; Docket 050078-EI

Dear Ms. Bayo:

Enclosed for filing on behalf of Progress Energy Florida, Inc. ("PEF") in the above-referenced docket are an original and 21 copies of the following:

1. PEF's Petition; 04202-05

2. Direct Testimony and Exhibits of PEF witnesses:

Robert H. Bazemore, Jr.	04203-05
Charles J. Cicchetti, Ph.D.	04204-05
John B. Crisp	04205-05
Ray F. DeSouza	04206-05
H. William Habermeyer, Jr.	04207-05
Jeffrey J. Lyash	04208-05
David W. McDonald	04209-05
Willette Morman Perry	04210-05
Mark A. Myers	04211-05
Dale Oliver	04212-05
Javier Portuondo	04213-05
William C. Slusser, Jr.	04214-05
Thomas R. Sullivan	04215-05
James H. Vander Weide, Ph.D.	04216-05
Dale D. Williams	04217-05
E. Michael Williams	04218-05
Dale E. Young	04219-05

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RCA 1
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SEC 1
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3. Minimum Filing Requirements ("MFRs") and Schedules.

In addition, a Request for Confidential Classification of certain information contained in MFR Schedule D-2 is being filed under separate cover. Also enclosed is a diskette containing PEF's Petition in Word format.

Please acknowledge your receipt and filing of the above on the enclosed copy of this letter and return same to me.

Sincerely,

R. Alexander Glenn

RAG:at
Enclosures
cc: Parties of record (w/enclosures)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase of Progress Energy Florida, Inc.

Docket No. 050078

Submitted for filing: April 29, 2005

PETITION

Progress Energy Florida, Inc. ("PEF" or the "Company"), pursuant to the provisions of Chapter 366, Florida Statutes, and Rule 25-6.043, Florida Administrative Code ("F.A.C."), respectfully petitions the Florida Public Service Commission (the "Commission") for approval of a permanent increase in rates and charges sufficient to generate additional total annual base revenues of approximately $206 million for electric service provided to customers beginning January 1, 2006. The requested increase will provide PEF with a reasonable opportunity to earn a fair rate of return on the Company's investment in property used and useful in serving the public, including a 12.8% rate of return on the Company's common equity capital.

PEF has not sought an increase in base rates in more than twelve years, in fact, the Company lowered its base rates by more than 9% in 2002, which saved customers more than half a billion dollars. PEF's current base rates are at a level that last existed in 1983. PEF has accomplished this despite its system demands growing by more than 687,080 customers and demand for reliable electricity by more than 5,594 megawatts. In sharp contrast to PEF's base rates, the Consumer Price Index ("CPI") has increased by 95% since 1983. Faced with such inflationary cost pressures, and the need to continue to meet customer expectations for more reliable power, the Company must seek an increase in its base rates to provide its customers with the level of electric service they demand and deserve.

In addition to its request for an increase in base rates, PEF requests the approval of certain changes to the terms of existing rate schedules, the withdrawal of certain non-cost-effective interruptible and curtailable rate schedules closed to new customers since 1996, and the approval of changes in existing service charges and other, related adjustments. PEF further submits its updated Depreciation, Nuclear Decommissioning, and Fossil Plant Dismantlement Cost Studies for approval by the Commission in accordance with Commission rules.

In support of this Petition, PEF states as follows:

Introduction

1. Any pleading, motion, notice, order, or other document required to be served upon PEF or filed by any party to this proceeding should be served upon the following individuals:

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2. PEF is an investor-owned electric utility, regulated by the Commission pursuant to Chapter 366, Florida Statutes, and is a wholly owned subsidiary of Progress Energy, Inc., a registered holding company under the Public Utility Holding Company Act ("PUHCA"). The Company's principal place of business is located at 100 Central Avenue, St. Petersburg, Florida 33701.

3. PEF serves approximately 1.5 million retail customers in Florida. Its service area comprises approximately 20,000 square miles in 35 of the state's 67 counties, encompassing the densely populated areas of Pinellas and western Pasco Counties and the greater Orlando area in Orange, Osceola, and Seminole Counties. PEF supplies electricity at retail to approximately 350 communities and at wholesale to about 21 Florida municipalities, utilities, and power agencies in the State of Florida.

4. PEF last raised base rates in 1993. The Company also substantially reduced its base rates under the Stipulation and Settlement approved by the Commission in Order No. PSC-02-0655-AS-EI (the "Stipulation") in 2002. As a result, the Company's current residential base rate for 1,000 kwh is at a level that last existed twenty-two years ago, in 1983. Despite relatively stable or reduced base rates, the Company has nonetheless continued to invest in its generation, transmission, and distribution systems. During the twelve years following the Company's last rate increase in 1993, the Company added more than 2,300 megawatts of new generating capacity and invested in additional infrastructure needed to serve over 350,000 new retail

customers, nearly a third more than the number of customers the Company served in 1993. The Company has spent and will spend more than $882 million in new power plants, including the most recently added highly efficient, cost-effective Hines 2 combined-cycle plant, and the similar Hines 3 combined-cycle power plant, which will be added to the system in 2005. In addition, since the Stipulation in 2002, the Company has invested approximately $123 million over and above normal expenditures to upgrade its transmission and distribution systems. As explained in the testimony and exhibits of the Company's witnesses, the result of these investments has been significant improvements in power resources and reserve margins, system reliability, and customer satisfaction for PEF's customers. At the same time the Company's customers have realized more than half a billion dollars in direct savings due to the Company's base rate reduction and revenue sharing under the Stipulation.

5. The Company has been able to maintain stable base rates and, in fact, reduce them, while making substantial capital and operation and maintenance expenditures in its business, largely due to the efficiencies and cost reductions achieved as a result of the merger that resulted in the Company. But for PEF's cost-saving initiatives and efficiency improvements, PEF's base rates likely would have had to increase long before now, and the extent of the increase would have been much greater. PEF has made great strides in operating its business efficiently to provide its customers with sufficient, highly reliable, electric service at a low cost. PEF, however, faces increasing costs in the coming years which, in combination with costs and investments the Company has absorbed over the last 13 years, necessitate an increase in its base rates.

6. To put the Company's request in perspective, in sharp contrast to the relatively stable cost of electric service to PEF's customers through base rates over the years, the cost of

other consumer services and products has sharply increased. The Company's current residential base rate for 1,000 kwh is at a level that last existed twenty-two years ago, in 1983. During the same time, the CPI has increased 95% and the cost of medical care has increased by 220%. These continuing increases in costs, together with the Company's continued investment in the production of power and the reliability of service discussed more fully below, require an increase in the Company's base rates. PEF has acted and will continue to act to mitigate cost increases through cost reductions and more efficient operations, but such efforts cannot postpone the inevitable need for a base rate increase at this time. PEF is simply unable to continue to meet the needs of existing and new customers for additional power and further improvements in the reliability and quality of electric service at current base rates. PEF, accordingly, files this Petition and respectfully requests an increase in its base rates beginning January 1, 2006, coincident with the end of the rate freeze and other key provisions of the current revenue-sharing plan approved by the Commission in the Stipulation.

7. Simultaneous with the filing of this Petition, PEF further submits for approval in accordance with the Commission's rules the updated Depreciation, Nuclear Decommissioning, and Fossil Dismantlement cost studies discussed in more detail below.

Request for Permanent Relief

8. Under the Stipulation, PEF's current base rates remain in effect until December 31, 2005. The Company agreed it would not seek an increase in base rates that would take effect prior to January 1, 2006. PEF's Petition is consistent with its Stipulation.

9. PEF selects the period January 1, 2006 through December 31, 2006 as the test year for calculating the revenue deficiency in this case. This test year is also consistent with the Stipulation.

10. A calendar year 2006 test year is the most appropriate because it will best fulfill the purpose of a test year, which is to set rates based on costs and revenues that are representative of the period when the new rates will be in effect. The costs and revenues of a projected 2006 test year are more representative of the period new rates will be in effect than is the most recent potential historic test year, 2004. For example, the use of a projected test year will be especially important to capture the impact of upcoming generation capacity additions, such as the Hines 3 combined-cycle unit that is currently under construction and is scheduled for commercial operation in December 2005. In addition, the projected 2006 test year will enable the ratemaking process to better capture the benefits of the Company's recently announced Corporate Reorganization and Mobile Meter Reading initiatives which, as described in the direct testimony accompanying this Petition, are currently in the process of implementation. These two initiatives by the Company will not be fully implemented, and their benefits will not be fully realized, until 2006. The use of a forward-looking 2006 test year will also facilitate the ability of the Company and Commission to address the issue concerning rate of return parity among the various customer classes, as well as other important cost of service and rate design issues. Accordingly, as part of its Petition, PEF requests that the period January 1, 2006 through December 31, 2006 be approved as the test year for this base rate proceeding.

11. Consistent with its request to use calendar-year 2006 as the test year, PEF will use the Company's 2005 budget year for the "prior year" and the Company's 2004 actual results for the "historical year" in the preparation of its Minimum Filing Requirements ("MFRs") for the

case. PEF further seeks approval of 2005 as the "prior year" and 2004 as the "historic year" for purposes of setting PEF's future base rates.

12. As explained fully by the Company's witnesses, PEF's plan is to maintain and improve upon the high quality of operational performance in power production and the high quality of service and reliability in power transmission and distribution the Company has achieved over the past three years. The high levels of customer satisfaction with the Company's electric service achieved over the same time period confirm that customers want the quality service the Company currently provides. The Company, however, cannot continue to provide high quality electric service at its current base rates. In an era of increasing costs, increasing customer growth, and increasing customer demand for reliable power, an increase in rates is necessary to continue to provide the reliable production, transmission, and distribution of power, and the quality of service to customers that PEF has achieved and its customers have come to expect.

13. To illustrate, the Company will soon make additions to rate base in the amount of approximately $500 million for its Hines 2 and Hines 3 combined-cycle generating units. Hines 2 will move fully into rate base when partial fuel clause cost recovery up to the level of fuel savings under the Stipulation expires in December 2005. Hines 3 is on schedule for an in-service date in December 2005 and, thus, will be added to the Company's rate base at that time. Additionally, the Company has added further to rate base through investments of approximately $1.3 billion to achieve operational improvements in its nuclear, fossil steam, combined-cycle, and combustion turbine power plants since 2001. As a result, the Crystal River nuclear plant has realized the highest level of performance in its history and, in fact, has one of the highest capacity factors in the nation, while the rest of PEF's generation fleet has achieved record levels

of equivalent availability and low forced outage rates. The reliability benefits and fuel cost savings from these investments are already being received by PEF's retail customers. To ensure that the high degree of availability and reliability of its existing fleet and the resulting flow of benefits to its customers are maintained, PEF will invest an additional $100 million in plant improvements between 2005 and 2006.

14. Another ongoing cost consideration that has garnered and warrants attention in light of recent experience is the clear need to replenish PEF's Storm Damage Reserve to ensure that sufficient funds are in place and available for the consequences of future hurricanes and severe storms. The Company's system suffered unprecedented damage in 2004 from Hurricanes Charley, Frances, Jeanne, and Ivan and incurred an estimated $366 million in storm-related costs. PEF has requested recovery of the retail portion of its operation and maintenance ("O&M") expenses for repair of storm-related damages through the establishment of a Storm Cost Recovery Clause in Docket No. 041272-EI. The retail portion of the Company's storm-related capital costs, approximately $50 million, however, will not be recovered through the Storm Cost Recovery Clause. Rather, these storm-related capital costs, which to this point have been absorbed by the Company, have been included in PEF's retail base rates that will be used for setting rates in this proceeding.

15. The enormous costs associated with the 2004 hurricanes were enough to have depleted the $46 million pre-hurricane balance in the Company's Storm Damage Reserve several times over. That balance had been produced by years of accruals to the reserve at the still-current amount of $6 million a year, which is intended to cover certain hurricane and severe storm-related costs not covered by insurance. At this current accrual level, the Storm Damage Reserve will not reach adequate levels for many years, if ever. PEF requests, therefore, as part

of its Petition that the annual base rate accrual to the Storm Damage Reserve be increased to $50 million in order to restore the reserve and provide an adequate reserve level for the costs associated with future hurricanes and severe storms.

16. As explained by the Company's witnesses, great strides have been made in the enhancement of PEF's transmission and distribution system through its Commitment to Excellence initiative, and it is incumbent on the Company and expected by its customers that these achievements in enhanced reliability continue unabated. This is a considerable challenge that PEF is well positioned to undertake and, although the costs PEF faces in doing so are substantial, they are necessary at a time when customer growth is strong, and the demand for reliable service is unrelenting. Simply put, the factors of growth and customer expectations strain PEF's current resources and require greater levels of infrastructure investment in the years immediately ahead to maintain and improve the level of service to customers.

17. The Company strives to control costs even in an era when costs for most companies and individuals, especially in the areas of health care and benefits programs, are increasing. A number of these efforts to achieve greater efficiencies and cost reductions in the Company's operations, including the Company's recent reorganization and mobile meter reading initiatives, are explained in the testimony and exhibits of the Company's witnesses. The Company will continue to operate as efficiently as possible, but the expenditures required to develop and implement the most beneficial efficiency improvements cannot continue, after more than 12 years, without an increase in base rates.

18. PEF's request includes an additional return on equity component for its outstanding efforts in maintaining low base rates, providing superior customer service, and achieving greater reliability levels for its customers. The merger in 2000 contributed to PEF's

improved efficiency and cost reductions and enabled the Company's base rate reductions to provide customers the benefit of over $500 million in savings. Further, the Company's Commitment to Excellence initiative over the same time period enhanced PEF's quality of service by achieving greater reliability and customer satisfaction, among other achievements. PEF therefore has demonstrated its ability to manage effectively, as shown by its superior and outstanding performance. PEF should be recognized and rewarded for its efforts with an additional return on equity component adjustment to the midpoint and range of the Company's authorized return on equity. This performance adjustment is consistent with Commission policy and past practice and is an appropriate incentive to the Company for continued superior performance.

19. By this Petition, PEF has not requested the recovery of any post commercial in-service costs resulting from its participation in the GridFlorida regional transmission organization pursuant to the Federal Energy Regulatory Commission ("FERC") transmission independence initiative and this Commission's Order No. PSC-01-2489-FOF-EI in Docket No. 000824-EI directing the investor-owned utilities in Florida to file a proposed Independent System Operator structure. The timing and nature of GridFlorida has not enabled PEF to determine when and the extent to which contributions will be required and, therefore, the Company has not included any such costs in its MFRs. The Company reserves the right to seek recovery of such costs at a later time and in any manner appropriate for recovery, including this proceeding if necessary, when the Company is better able to identify and quantify the costs.

20. PEF has filed simultaneously with, and as part of, this Petition, MFRs containing the information required by Rule 25-6.043(1), F.A.C. Pursuant to Rule 25-6.043(1)(b), F.A.C., PEF has compiled its MFRs by following the enumerated policies, procedures, and guidelines

prescribed by the Commission. Additionally, the supporting prepared testimony and exhibits of PEF's witnesses have been filed contemporaneously with this Petition, and are incorporated herein and made a part hereof by this reference. The Company's MFRs and its prepared testimony and exhibits fully support PEF's Petition for an increase in its base rates.

21. PEF has also simultaneously submitted its Depreciation, Nuclear Decommissioning, and Fossil Dismantlement cost studies with its Petition to the Commission for approval under the Commission's rules, as further demonstrated below.

Depreciation Cost Study

22. PEF petitions the Commission pursuant to Rule 25-6.0436, F.A.C. for approval of its Depreciation Study filed contemporaneously with its Petition as an Exhibit to the prepared testimony of Robert H. Bazemore, Jr. Rule 25-6.0436(2), F.A.C. provides that no utility shall change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval. Rule 25-6.0436(4), F.A.C. further provides for filing a depreciation study with the Commission and what a depreciation study must contain. Consistent with Commission Rule 25-6.0436, F.A.C., PEF therefore files its 2005 Depreciation Cost Study with the Commission for approval.

23. The Company's Depreciation Study takes into account estimates of depreciable plant balances as of December 31, 2005 based upon PEF's 2005 forecasted plant balances. The estimated plant balances were used to compute the change in depreciation expense between the Study and the Company's 1997 approved study. The Study takes into account factors causing changes in depreciation expense by function, including Steam, Nuclear, Other Production, Transmission, Distribution, and General Plant, as well as major plant additions that impact the

Company's 2006 test year. The Study further takes into account the termination of the depreciation credit provided in the Stipulation that concluded PEF's last base rate proceeding.

24. PEF respectfully requests the Commission to approve its 2005 Depreciation Cost Study, including its use in this proceeding for setting the Company's base rates effective January 1, 2006.

Nuclear Decommissioning Cost Study

25. PEF petitions the Commission pursuant to Rule 25-6.04365, F.A.C. for approval of the Company's Nuclear Decommissioning Study filed contemporaneously with its Petition as an Exhibit to the prepared testimony of Dale E. Young. Rule 25-6.04365(1), F.A.C., requires each utility that owns a nuclear generating plant to file a Nuclear Decommissioning Study at least every five years. PEF submits its Nuclear Decommissioning Cost Study, which complies with the requirements set out in Rule 25-6.04365(3), for approval.

26. The Nuclear Decommissioning Study shows the current estimate of the least cost decommissioning alternative to be $668.6 million in 2005 dollars. The Company's funded decommissioning reserve balance, adjusted for forecasted earnings and anticipated license extension is sufficient to cover this cost escalated to the end of the nuclear plant's anticipated extended operating license in 2036 without the need for additional accruals.

27. PEF respectfully requests the Commission to approve its Nuclear Decommissioning Study, including its use in this proceeding for setting the Company's base rates effective January 1, 2006.

Fossil Plant Dismantlement Cost Study

28. PEF petitions the Commission pursuant to Rule 25-6.04364, F.A.C. for approval of the Company's 2005 Fossil Plant Dismantlement Study filed contemporaneously with its Petition as an Exhibit to the prepared testimony of E. Michael Williams. Rule 25-6.04364, F.A.C., requires each utility to establish a dismantlement accrual approved by the Commission to accumulate a reserve sufficient to meet all expenses at the time of each fossil plant's dismantlement and to file with the Commission a dismantlement cost study for each fossil plant generating site at least every four years. PEF submits its Fossil Plant Dismantlement Cost Study, which includes each requirement listed in Rule 25-6.04364(3), to the Commission for approval.

29. The Company's 2005 Fossil Plant Dismantlement Study shows PEF will need to accrue $9,651,668 annually beginning in 2006 in order to assure that sufficient funds will be available to cover the costs of dismantlement and decommissioning of the Company's fossil plant generating sites.

30. PEF respectfully requests the Commission to approve its 2005 Fossil Plant Dismantlement Study, including its use in this proceeding for setting the Company's base rates effective January 1, 2006.

Conclusion

WHEREFORE, for all these reasons, as more fully explained in the testimony, exhibits, and MFRs filed in support of its Petition, the Company respectfully petitions the Florida Public Service Commission to:

(1) Accept this filing for final agency action;

(2) Set an early hearing date for purposes of granting permanent relief, and enter its decision on or before December 1, 2005, so as to permit PEF to earn a fair and reasonable rate of return for electric service provided to customers beginning January 1, 2006;

(3) Find and determine that the Company's present rates are insufficient to yield a fair rate of return beginning January 1, 2006;

(4) Authorize PEF to revise and increase its base rates and charges to generate additional gross annual base revenues of $206 million, beginning January 1, 2006, so that PEF will have an opportunity to earn a fair overall rate of return, including a rate of return of 12.8% on common equity capital, which includes an additional return on equity incentive adjustment in recognition of superior performance;

(5) Authorize PEF to increase the annual accrual to its Storm Damage Reserve to $50 million, so that the Company's depleted reserve may be restored to an adequate level;

(6) Approve PEF's 2005 Depreciation Cost Study;

(7) Approve PEF's 2005 Nuclear Decommissioning Cost Study;

(8) Approve PEF's 2005 Fossil Plant Dismantlement Cost Study;

(9) Terminate the Stipulation; and

(10) Grant to the Company such other and further relief as the Commission may find to be reasonable and proper pursuant to the authority granted to the Commission under Chapter 366, Florida Statutes.

Respectfully submitted,

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Attorneys for
PROGRESS ENERGY FLORIDA, INC

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by hand delivery where indicated (*), otherwise by U.S. Mail this 29th day of April, 2005 to all counsel of record as indicated below.

R. Alexander Glenn

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