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October 10, 2006

Via UPS

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Dear Ms. Bayó:

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 have become more restrictive, especially for Gulf and Atlantic coast locations resulting from the 2004 and 2005 hurricane losses. Traditional insurance coverage for storm related damage to T&D facilities remains effectively unavailable. Therefore, we have no plans at this time to procure T&D coverage through the traditional insurance markets.
- 2. Status of the Proposed Industry-Wide T&D Program – Earlier this year, representatives of electric utilities with T&D hurricane exposure in the Gulf and Atlantic coastal regions began discussions regarding the feasibility of forming a mutual facility to provide coverage through insurance, reinsurance and/or capital markets. The amount and structure of possible coverage is still being developed. The group has now met on three occasions, with the next meeting scheduled for October 12, 2006. Progress Energy Florida is an active member of this group.
- 3. Update on the Evaluation of Progress Energy Florida's Exposure and the Adequacy of the Storm Damage Reserve – 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 September 30, 2006, is \$3,162,245.
- 4. Feasibility and Cost-Effectiveness of a Risk Sharing Plan Among Investor-Owned Electric Utilities in Florida – See Item 2 above.

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As in the past, Progress Energy Florida requests that this letter serve as its annual report for 2006. 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.

Progress Energy Service Company, LLC
P.O. Box 1551
Raleigh, NC 27602

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

Sincerely,

A handwritten signature in black ink that reads '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