State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: September 6, 2006

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, AGENDA HELD 08/29/06.

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT No.: 08120-06, 09/05/06

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

LEGAL, ECR

Acknowledged BY:

JF/rlm

Kay Flynn 04/272

From: Donna Jones

Sent: Friday, August 25, 2006 5:17 PM

To: All PSC Employees; Commissioners & Staffs

Subject: Items of Interest at Upcoming Agenda Conference 8/29/06

A news release was distributed to the daily newspapers this afternoon, 8/25/06, and is now available on the PSC web site:

http://www.psc.state.fl.us/home/news/index.aspx?id=157

Donna Jon es
Office of Public Information
Public Service C ommission
Telephone: 4 13-6656, Intercom 43 1

State of Florida

Public Service Commission

NEWS RELEASE

8/25/2006 **Contact: 850-413-6482**

Items of Interest at Upcoming Agenda Conference 8/29/06

TALLAHASSEE — The following items are among those scheduled for consideration by the Commission at the August 29, 2006, Agenda Conference:

ITEM 6: DOCKET NO. 041272-EI – PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC. The Commission will consider a settlement agreement between Progress Energy and the parties to its 2004 storm docket that proposes to extend the existing storm surcharge an additional 12 months.

ITEM 7: DOCKET NO. 060198-EI – REQUIREMENT FOR INVESTOR-OWNED ELECTRIC UTILITIES TO FILE ONGOING STORM PREPAREDNESS PLANS AND IMPLEMENTATION COST ESTIMATES. The Commission will consider a staff recommendation addressing the adequacy of the investor-owned electric utility plans for implementing initiatives for ongoing storm preparedness identified in Order No. PSC -06-0351- PAA -EI.

ITEM 8: DOCKET NO. 060531-EU – REVIEW OF ALL ELECTRIC UTILITY WOODEN POLE INSPECTION PROGRAMS. The Commissioners will consider the adequacy of electric utility wooden pole inspection programs submitted by investor-owned, municipal and cooperative utilities relating to Commission Order No. PSC -06-0144- PAA -EI.

ITEM 9: DOCKET NO. 060426-EI – PETITION FOR EXEMPTION UNDER RULE 25-22.082(18), F.A.C., FROM ISSUING REQUEST FOR PROPOSALS (RFPs), BY FLORIDA POWER & LIGHT COMPANY. The Commissioners will consider whether or not to grant FP&L's petition for exemption from the RFP requirement for its next planned advanced technology coal generating units.

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STATE OF FLORIDA

DIVISION OF THE COMMISSION CLERK &
ADMINISTRATIVE SERVICES
BLANCA S. BAYÓ
DIRECTOR
(850) 413-6770 (CLERK)
(850) 413-6330 (ADMIN)

Public Service Commission

November 15, 2005

Gary L. Sasso, Esquire
James Michael Walls, Esquire
Carlton Fields Law Firm
215 South Monroe Street, Suite 500
Tallahassee, Florida 32301-1866

Re: Return of Confidential Documents to the Source, Docket No. 041272-EI

Dear Messrs. Sasso and Walls:

Commission staff have advised that Confidential Document Nos. 12591-04, 12594-04, 13074-04, 13600-04, 01812-05 (two copies), 01814-05, and 02587-05, filed on behalf of Progress Energy Florida can be returned to the source. The documents are enclosed in six boxes.

Please do not hesitate to contact me if you have any questions concerning return of this material.

Sincerely,

Kay Flynn, Chief
Bureau of Records

KF/mhl
Enclosure

cc: John Slemkewicz, Division of Economic Regulation
Jennifer Brubaker, Office of the General Counsel

SIGNED FOR BY _____ **DATE** 11/15/05

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: August 24, 2005

TO: Kay B. Flynn, Chief of Records, Division of the Commission Clerk & Administrative Services
Hong Wang, Management Review Specialist, Division of the Commission Clerk & Administrative Services
Cecelia R. Diskerud, Deputy Clerk, Office of the General Counsel

FROM: Wanda L. Terrell, Administrative Assistant, Office of the General Counsel
David E. Smith, Attorney Supervisor, Office of the General Counsel

RE: AARP, et al. v. Braulio L. Baez, etc. et al., Docket No. 041272-EI, Florida Supreme Court Case No. SC05-1455.

Please note that David Smith is handling the above appeal. The Notice of Administrative Appeal was filed on August 15, 2005 . The case schedule is as follows:

Date	Item
From day of filing:	
09/20/05	Draft of Index of Record from CCA to Appeals Attorney.
10/04/05	Index of Record served on Parties.
10/14/05	Copy of Record to Appeals.
10/24/05	Appellant's Initial Brief Due.
11/08/05	Draft Commission Answer Brief Due.
11/13/05	Commission's Answer Brief Due.
12/03/05	Appellant's Reply Brief Due.

DES:wlt

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: August 24, 2005

TO: Kay B. Flynn, Chief of Records, Division of the Commission Clerk & Administrative Services
Hong Wang, Management Review Specialist, Division of the Commission Clerk & Administrative Services
Cecelia R. Diskerud, Deputy Clerk, Office of the General Counsel

FROM: Wanda L. Terrell, Administrative Assistant, Office of the General Counsel
David E. Smith, Attorney Supervisor, Office of the General Counsel

RE: Citizens of the State of Florida v. Braulio L. Baez, etc., et al., Docket No. 041272-EI, Florida Supreme Court Case No. SC05-1453; and

Florida Retail Federation v. Braulio L. Baez, etc., et al., Docket No. 041272-EI, Florida Supreme Court Case No. SC05-1452.

Please note that David Smith is handling the above appeals. The Notices of Administrative Appeal were filed on August 12, 2005 . The case schedule is as follows:

Date	Item
From day of filing:	
09/17/05	Draft of Index of Record from CCA to Appeals Attorney.
10/01/05	Index of Record served on Parties.
10/11/05	Copy of Record to Appeals.
10/21/05	Appellant's Initial Brief Due.
11/05/05	Draft Commission Answer Brief Due.
11/10/05	Commission's Answer Brief Due.
11/30/05	Appellant's Reply Brief Due.

DES:wlt

COMMISSIONERS:
BRAULIO L. BAEZ, CHAIRMAN
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
LISA POLAK EDGAR

STATE OF FLORIDA

DIVISION OF THE COMMISSION
CLERK AND ADMINISTRATIVE
SERVICES
CAPITAL CIRCLE OFFICE CENTER
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FL 32399-0850

Public Service Commission

August 16, 2005

Thomas D. Hall, Clerk
Supreme Court of Florida
Supreme Court Building
Tallahassee, Florida 32301

Re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc. (Docket No. 041272-EI)

Dear Mr. Hall:

Enclosed is a certified copy of a Notice of Administrative Appeal, filed in this office on August 15, 2005, on behalf of AARP, Buddy Hansen, and Sugarmill Woods Civic Association, Inc. Also enclosed is a copy of Order No. PSC-05-0748-FOF-EI, the order on appeal.

It is our understanding that the index of record is due to be served on the parties to this proceeding on or before October 4, 2005.

Sincerely,

Kay Flynn

Kay Flynn, Chief
Bureau of Records

KF/mhl
Enclosure

cc: Michael B. Twomey, Esquire
David Smith, Esquire
parties of record

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.	Docket No. 041272-EI Filed: August 15, 2005

NOTICE OF ADMINISTRATIVE APPEAL

NOTICE is hereby given that AARP, Buddy Hansen and Sugarmill Woods Civic Association, Inc., through their undersigned counsel, appeal to the Florida Supreme Court Order No. PSC-05-0748-FOF-EI. The Order was rendered on July 14, 2005. As required by Rule 9.100(d) of the Florida Rules of Appellate Procedure, a conformed copy of Order No. PSC-05-0748-FOF-EI is attached to this notice.

The nature of the Order is a final order denying Progress Energy Florida's ("PEF") request for a storm "cost recovery clause" that would operate outside the base rates; interpreting a 2002 stipulation to which PEF, Buddy Hansen and Sugarmill Woods Civic Association, Inc. were parties and concluding the provisions prohibiting PEF from seeking to increase base rates unless its earned return on equity first fell below 10% is inapplicable to PEF's petition as a matter of law; granting in substantial part PEF's request for authority to collect from customers costs that PEF incurred to repair its electric system following the 2004 hurricane season; and authorizing PEF to implement a temporary surcharge on existing base rates without requiring PEF to expense any portion of the identified costs against earnings for the period.

CMP
COM
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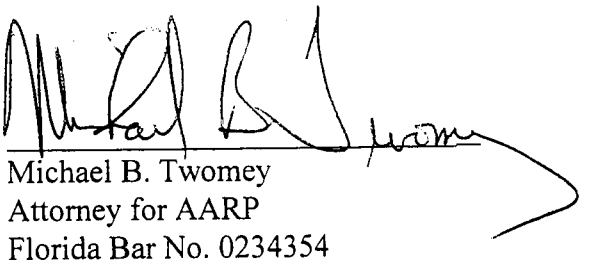
SGA
SEC 1
OTH Lockard

Respectfully submitted,



Michael B. Twomey
Attorney for AARP
Florida Bar No. 0234354
Post Office Box 5256
Tallahassee, FL 32314-5256
Telephone: 850-421-9530

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original and two copies of the foregoing NOTICE OF ADMINSTRATIVE APPEAL were filed with the Clerk of the Florida Public Service Commission, and a copy of said notice was hand delivered to the Clerk of the Florida Supreme Court and was served by U.S. Mail and electronic mail this 15th day of August, 2005 on the following:

Richard D. Melson, General Counsel
Jennifer Brubaker, Esquire
Jennifer Rodan, Esquire
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

James Michael Walls, Esquire
John T. Burnett, Esquire
Carlton Fields Law Firm
Post Office Box 3239
Tampa, FL 33601-3239

John W. McWhirter, Esquire
McWhirter, Reeves,
Davidson & Arnold, P.A.
400 North Tampa Street
Tampa, Florida 33602

Tim Perry, Esquire
McWhirter, Reeves
Davidson & Arnold, P.A.
117 South Gadsden Street
Tallahassee, Florida 32301

Robert Scheffell Wright, Esquire
Landers & Parsons
310 West College Avenue
Tallahassee, Florida 32301

R. Alexander Glenn
Progress Energy Service Company, LLC
100 Central Avenue, Suite 1D
St. Petersburg, FL 33701

Harold McLean, Public Counsel
Joseph A, McGlothlin, Esquire
Office of Public Counsel
111 West Madison Street, Room 912
Tallahassee, FL 32399-1400

Attorney

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.	DOCKET NO. 041272-EI ORDER NO. PSC-05-0748-FOF-EI ISSUED: July 14, 2005

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
LISA POLAK EDGAR

APPEARANCES

GARY SASSO, ESQUIRE, JAMES WALLS, ESQUIRE, and JOHN BURNETT, ESQUIRE, Carlton Fields Law Firm, Post Office Box 3239, Tampa, Florida 33601-3239, appearing on behalf of Progress Energy Florida, Inc.

JOHN W. MCWHIRTER, JR., ESQUIRE, McWhirter Reeves, 400 North Tampa Street, Suite 2450, Tampa, Florida 33601-3350, and TIM PERRY, ESQUIRE, McWhirter Law Firm, 117 S. Gadsden Street, Tallahassee, Florida 32301, appearing on behalf of Florida Industrial Power Users Group.

HAROLD MCLEAN, ESQUIRE, JOSEPH McGLOTHLIN, ESQUIRE, and PATRICIA CHRISTENSEN, ESQUIRE, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison St., Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Office of Public Counsel.

ROBERT SCHEFFEL WRIGHT, ESQUIRE, Landers & Parsons, P.A., 310 West College Avenue, Tallahassee, Florida 32302, appearing on behalf of the Florida Retail Federation.

MICHAEL B. TWOMEY, ESQUIRE, Post Office Box 5256, Tallahassee, Florida 32314-5256, appearing on behalf of Buddy Hansen, Sugarmill Woods Civic Association, Inc., and AARP.

JENNIFER BRUBAKER, ESQUIRE and JENNIFER RODAN, ESQUIRE, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission.

FINAL ORDER DECLINING TO ESTABLISH A STORM COST RECOVERY CLAUSE, AND APPROVING TEMPORARY SURCHARGE FOR 2004 STORM COST RECOVERY

BY THE COMMISSION:

BACKGROUND

This docket was opened on November 2, 2004, when Progress Energy Florida, Inc. ("PEF" or "Company") filed a Petition for implementation of a Storm Cost Recovery Clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan (Petition). PEF proposed that the requested clause would provide for the recovery of approximately $251.9 million plus interest over two years.

On March 15 through 17, 2005, we held customer service hearings in Ocala, Apopka, Bartow, St. Petersburg, and Clearwater. We also held a customer service hearing on the first day of our technical hearing in Tallahassee. A total of 49 individuals spoke at these service hearings for which most represented city/county governments (i.e. mayors, commissioners, school superintendents, emergency management officials, etc.), local civic associations, various local chamber of commerce representatives, a water and wastewater utility representative, and representatives of other privately-owned companies. For the most part, these individuals were highly complimentary towards PEF's hurricane restoration efforts.

We held an administrative hearing on March 30, 31, and April 1, 2005. The Office of Public Counsel (OPC), Florida Industrial Power Users Group (FIPUG), American Association of Retired Persons (AARP), Buddy L. Hansen and Sugarmill Woods Civic Association, Inc. (SMW), and Florida Retail Federation (FRF) intervened and participated in the proceeding.

As discussed in greater detail below, we are denying PEF's request to implement a storm cost recovery clause; rather, the storm costs approved for recovery shall be treated as a temporary surcharge. We have made a number of adjustments to the costs for which PEF is seeking recovery. In large part, these adjustments limit recovery to those incremental costs, reasonably and prudently incurred during PEF's 2004 hurricane restoration efforts, which were incurred over and above PEF's budgeted operation and maintenance (O&M) expenses. Based upon our findings, the appropriate amount of storm-related costs to be recovered from the customers is $231,839,389.

We have jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

APPROVED STIPULATIONS

At the hearing, we found that the stipulations reached by the parties and supported by staff on certain issues were reasonable. We hereby accept the stipulated matters as set forth below.

Category One Stipulations

Category One Stipulations are those for which PEF, FIPUG, OPC, AARP, SMW, FRF, and our staff agreed:

1. With respect to replacements of plant items associated with 2004 post-storm repair and restoration activities, the parties stipulate and agree that PEF shall book to plant in service the normal cost of new plant additions under normal operating conditions, and shall book to the storm reserve (as extraordinary O&M) only the costs of new plant additions that exceed those normal amounts. PEF stipulates and agrees to verify that it has implemented this methodology and to provide final values for the portions of costs associated with new plant additions that it has booked to plant in-service and to the storm damage reserve, respectively, after it has completed the booking of relevant costs. PEF's current estimate of costs that it will book to plant in service using this methodology is approximately $47 million dollars.

   This partial stipulation addresses only the appropriate accounting methodology to be employed for the accounting of costs associated with plant replacements, and does not prevent any party from challenging the reasonableness or prudence of any individual cost item. Further, the partial stipulation does not address the aspects of Issue 12 that treat retirements and cost of removal expense, which remain at issue.

2. The parties stipulate and agree that PEF shall charge to the storm damage reserve only the costs of those materials and supplies that PEF actually used during the 2004 post-storm repair and restoration activities, thereby excluding from the storm damage reserve any costs associated with replenishing supplies and inventories. PEF stipulates and agrees that it will verify that it has implemented this approach in a report submitted in this docket after it has completed the process of booking all storm-related costs.

   This stipulation addresses only the appropriate accounting methodology to be applied to costs of materials and supplies, and does not prevent any party from challenging the reasonableness or prudence of any individual cost.

3. The parties stipulate and agree as follows: (1) PEF shall accrue and collect interest on the amount of storm costs that the Commission authorizes PEF to collect from customers in this proceeding. (2) No interest shall accrue prior to the date on which the Commission's vote in this docket is rendered. (3) No interest shall accrue on any amount in excess of that which the Commission authorizes PEF to collect from customers. (4) If PEF collects from customers an amount greater than that authorized by the Commission, it shall refund the differential with interest. (5) PEF shall calculate interest by applying the 30-day commercial paper rate in the following manner: Using a 30-day Dealer Commercial Paper rate, as published in the Wall Street Journal, which is high-grade unsecured notes sold through dealers by major corporations.

4. The parties stipulate and agree that PEF shall collect the amount of storm-related costs that the Commission authorizes it to recover from customers over a maximum period of 2 years.

5. The parties stipulate and agree that the mechanism that the Commission approves for recovery of storm-related costs shall become effective 30 days following the date of the Commission's vote in this docket. Recovery shall begin with the first billing cycle of the following month.

6. The parties stipulate and agree that PEF shall file tariffs reflecting the establishment of any Commission-approved mechanism for the recovery of storm-related costs from the ratepayers.

Category Two Stipulations

Category Two Stipulations are those for which PEF, FIPUG, FRF, and our staff agreed, and for which OPC, AARP, and SMW took no position.

1. The methodology for allocation of storm recovery costs should be that which is proposed in PEF's petition.

EFFECT OF ORDER NO. PSC-02-0655-AS-EI

Background

We approved the Settlement of PEF's last rate case by Order No. PSC-02-0655-AS-EI, issued May 14, 2002, in Docket No. 000824-EI, In re: Review of Florida Power Corporation's earnings, including effects of proposed acquisition of Florida Power Corporation by Carolina Power & Light. Among other things, the Stipulation and Settlement agreement (Stipulation or Settlement) provided that PEF (formerly FPC) will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates, except as provided for in Section 9 of the Settlement regarding PEF's Hines Unit 2. The Settlement further provided that PEF will not petition for an increase in its base rates and charges, including interim rate increases, that would take effect prior to December 31, 2005. The Settlement does not explicitly address hurricane related costs. The pertinent sections are as follows:

> 4. No Stipulating Party will request, support, or seek to impose a change in the application of any provision hereof. The Stipulating Parties other than FPC will neither seek nor support any additional reduction in FPC's base rates and charges, including interim rate decreases, that would take effect prior to December 31, 2005 unless such reduction is initiated by FPC. FPC will not petition for an increase in its base rates and charges, including interim rate increases, that would take effect prior to December 31, 2005, except as provided in Section 7. ...
>
> 7. If FPC's retail base rate earnings fall below a 10% ROE as reported on an FPSC adjusted or pro-forma basis on an FPC monthly earnings surveillance report

> during the term of this Stipulation and Settlement, FPC may petition the Commission to amend its base rates notwithstanding the provisions of Section 4. The other Stipulating Parties are not precluded from participating in such a proceeding. This Stipulation and Settlement shall terminate upon the effective date of any Final Order issued in such proceeding that changes FPC's base rates.
> ...
>
> 12. ... FPC will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates, except as provided in Section 9.

Argument of the Parties

At issue is whether the Stipulation, approved by our Order No. PSC-02-0655-AS-EI, affects the amount or timing of storm-related costs that PEF can collect from customers pursuant to its petition in this docket; and, if so, what the impact on the amount or timing is. PEF contends that the Settlement has no bearing on PEF's petition to establish a storm recovery clause. The intervenors assert that the request to establish a storm recovery clause is an attempt to circumvent the terms of the Settlement, and that PEF should realize no recovery of its 2004 storm costs from customers until its return on equity has fallen to 10%.

In support of its position, PEF argues that the Settlement provides that PEF will not petition for an increase in its base rates and charges that would take effect prior to December 31, 2005; further, PEF is allowed to petition this Commission to amend its base rates if its retail base earnings fall below a 10% ROE. PEF contends that its petition to establish a storm cost recovery clause does not involve an increase in base rates and charges, and that the storm-related costs that PEF seeks to recover under a Storm Cost Recovery Clause were not and cannot be included in a base rate proceeding. PEF contends that the costs of severe storms like the 2004 hurricanes are too volatile, irregular in their occurrence, and unpredictable to be addressed in base rates. Rather, base rates are set to defray other, normal recurring costs of running the utility. PEF contends that the intervenors' witnesses all agreed that the 2004 hurricanes and the costs incurred by PEF were unprecedented in nature and that the hurricane costs were volatile and unpredictable, and that PEF's base rates did not include the 2004 hurricane costs. PEF argues that the Settlement, which settled a base rate proceeding, is inapplicable to the Company's Petition for recovery of its 2004 hurricane costs. PEF contends that is untenable and unfair for intervenors to suggest that PEF must use its base rate revenues to absorb all or part of the costs of volatile, non-recurring expenses that base rates were never intended to recover in the first place.

PEF also contends that we should reject the intervenors' arguments that the Company should share the 2004 hurricane-related costs with its customers by applying its earnings toward those costs, suggesting the 10% ROE figure in the Company's Stipulation is, in any event, a fair and reasonable way to allocate the Company's storm-related costs. PEF believes that this construction of the Settlement is inaccurate. PEF argues that Rule 25-6.0143(4)(c), Florida Administrative Code, which governs the Storm Damage Reserve, requires that "each and every loss or cost which is covered by the account shall be charged to that account and shall not be

charged directly to expenses. Charges shall be made to accumulated provision accounts regardless of the balance in those accounts." PEF asserts that it would thus be precluded from expensing storm-related costs in 2004 to the point that the Company's return is limited to a 10% ROE without obtaining a waiver of the Rule by the Commission. PEF contends that in urging us to force PEF to divert its base rates and revenues to cover these expenses, the Intervenors are seeking an additional reduction in PEF's base rates in violation of Paragraph 4 of the Settlement. Further, PEF asserts that it is unfair and inconsistent with sound regulatory policy to reduce PEF's earnings to the "bottom line" when "the evidence demonstrates that PEF's performance during the 2004 hurricanes was everything the Commission and customers should want a utility to do and more."

In support of its position, OPC argues that PEF's request for a storm cost recovery clause is an attempt by PEF to evade its obligations under the Settlement. PEF notes that we denied a request by Florida Power & Light Company to establish a similar clause in 1993, by Order No. PSC-93-0918-FOF-EI, issued June 17, 1993, in Docket No. 930405-EI, In re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase annual contribution to storm and property insurance reserve fund by Florida Power & Light Company. OPC contends that PEF's request in the instant docket should likewise be denied as an unsuitable mechanism, stating that PEF's attempt to create a clause now can not alter the fact that, at the time of the Settlement, the parties did not provide for storm cost treatment in any way other than through base rates. OPC supports its argument that PEF's request is not a true clause in that a legitimate cost recovery clause is perpetual in nature, and PEF's proposal would terminate after two years. Further, a true clause is not confined to the cost of a specific event, and PEF's proposal is to collect $252 million, which it quantifies as the cost of specific storm events, over a specific time frame.

OPC also contends that PEF has incorrectly asserted that the 10% trigger applies only to an unanticipated reduction in revenues, as opposed to an increase in costs, noting that, during the hearing, PEF witness Portuondo asserted that the parties to the Settlement intended the 10% return on equity threshold to apply only in the event PEF miscalculated revenues. OPC states that Mr. Portuondo admitted during cross-examination that the Settlement does not contain any distinction between reductions in earnings caused by increased costs as opposed to reductions in earnings caused by lower revenues. OPC contends that the language of the Settlement does not imply or even remotely suggest the existence of such a distinction, and that PEF instead has come up with an after-the-fact interpretation that impermissibly opposes the clear language of the Settlement.

In summary, OPC posits that PEF can neither circumvent the 10% ROE provision of the Settlement by requesting a cost recovery clause, nor rewrite the Settlement's terms by asserting that only reduced revenues can trigger the 10% provision. OPC contends that PEF must be held to the clear, plain confines of the Settlement; and that circumstances have not changed in a way that would present a basis in which we could modify PEF's obligation.

In support of its position, FIPUG also asserts that the proposed creation of a storm cost recovery clause "is nothing more than an attempt to do an end run around [PEF's] Stipulation and Settlement and to do it in a manner that is contrary to past Commission practice." FIPUG

alleges that PEF has rejected the historic base rate approach to recovering storm costs because it would otherwise lose excessive 2004 profits, because PEF agreed in the Settlement that it would not seek a base rate increase unless the after-tax return on equity falls below 10%.

FIPUG contends that our orders and rule on the storm reserve clearly demonstrate that storm damage expenses are part of base rates. For instance, in Order No. PSC-03-0918-FOF-EI, which established the storm damage reserve for FPL, we acknowledged that hurricane-related expenses were included in base rates and, therefore, declined to create a 100% pass-through mechanism such as the clause PEF proposes in this case. In Order No. PSC-93-1522-FOF-EI, which approved the creation of a storm reserve fund for PEF, we noted that PEF was collecting for transmission and distribution property damage in its base rates. In addition, Rule 25-6.0143, Florida Administrative Code, governs the treatment of storm-related costs, and provides that balances in these storm accounts are to be evaluated at the time of a rate proceeding and adjusted as necessary, while permitting a utility to petition for a change in the provision level and accrual rate outside of a rate proceeding.

FIPUG contends that we have at our disposal several methodologies for dealing with PEF's storm damages that are consistent with the terms of the Settlement. FIPUG recommends that PEF should bear all storm expenses to the point that its earnings fall to a 10% ROE, with the remainder being borne by the ratepayers. In recognition that this is a base rate case, instead of using a cost recovery clause to collect the storm damage costs, we should use a temporary adjustment to base rates by creating a storm damage base rate rider to allow recovery of the ratepayers fair share of the costs over a two year period. FIPUG believes that this approach comports with the action we've taken in the past whereby PEF and Gulf Power Company have applied excess earnings to reduce storm damage expense. In addition, FIPUG also recommends a variation on the risk-sharing approach: for 2004, we should require PEF to book the amount of storm damage expense to bring its after tax return on equity to 10%. In 2005, we should allow that return to increase to the 12.5% return authorized in 1994, with excess earnings applied to reduce the storm damage costs. Then, for 2006, PEF would be allowed to earn the return that we find to be proper in the pending rate case, Docket 050078-EI.

SMW contends that the Settlement prohibits PEF from recovering any storm costs from its customers until its return on equity falls to 10%. SMW believes that not only does the 10% equity return "floor" in the Settlement provide a minimal fair return on equity for use in determining the shareholders' share of costs to be borne, such a 10% equity return is more than fair in the current market. SMW's primary position is that the storm expense incurred by PEF should be amortized over an appropriate time period and that there should be no surcharge to customers. However, SMW contends that if there is a surcharge, then the amount of the recovery should be determined, not based on the amount that PEF spent, but the amount of storm cost recovery expenses that remain after PEF's shareholders absorbed costs sufficient to bring its earnings to the minimum of a fair rate of return on equity, which, pursuant to the Settlement Agreement, is 10%.

FRF contends that the Settlement requires PEF to defray storm-related costs from earnings to the point that its return on equity has fallen to 10%. FRF further asserts that PEF's request to establish a storm cost recovery clause would violate the Settlement, and that PEF

seeks to charge rates that require its captive customers to bear effectively all of the risks and all of costs incurred due to the 2004 storms while preserving for itself a ROE of approximately 13.5%, approximately 350 basis points above the ROE that PEF agreed to in the Settlement and similarly far above any reasonable ROE under current market conditions. FRF contends that we must ensure that PEF's rates, considered in their totality, are fair, just, and reasonable. In this case, FRF believes that this requires that PEF's earnings and its achieved rate of ROE be taken into account and, accordingly, that any storm surcharge we approve should allow PEF to earn a 10% after-tax ROE for 2004 and 2005, as required by the Settlement.

FRF states that storm-related expenses typically are, and have historically been, recovered through changes in base rates, but in this case, such base rate changes are limited due to the Settlement. FRF agrees that PEF has the right to seek base rate relief to get its base rates to a level that would provide PEF with the opportunity to earn a rate of return on equity of 10.0%, consistent with the Settlement. FRF believes that a 10% after-tax ROE is fair to PEF within the terms of the 2002 Stipulation, and it is generous relative to current market conditions.

Order No. PSC-02-0655-AS-EI Does Not Affect Storm Cost Recovery

Over a six week period in 2004, PEF's service area was struck by four hurricanes, during which time PEF experienced over two million cumulative customer outages, and a company-estimated $366 million in storm-related costs. At hearing, all of the intervenors' witnesses agreed that four hurricanes in Florida over one year's time was an unprecedented event. OPC witness Majoros did not dispute that the 2004 hurricane season caused severe damage to the company's transmission and distribution system, and SMW witness Stewart agreed that the storm-related costs that PEF incurred in 2004 as a result of the four hurricanes were also unprecedented. PEF contends that, as even OPC's witness agreed, the job of preparing for, responding to, and recovering from four hurricanes in 2004 was a massive undertaking, requiring thousands of PEF employees and outside workers unfamiliar with PEF's accounting methods focusing all of their efforts on restoring service as quickly and safely as possible.

PEF has a Storm Damage Reserve for O&M expenses associated with storm damage which customers support through base rates; at the end of 2004 the value of the Reserve was $46.9 million. PEF's Storm Damage Reserve was established by Order No. PSC-93-1522-FOF-EI, issued October 15, 1993, in Docket No. 930867-EI, In re: Petition of Florida Power Corporation for authorization to implement a self-insurance program for storm damage to its T&D Lines and to increase annual storm damage expenses. At that time, PEF had been collecting $1 million annually in base rates for transmission and distribution (T&D) property damage, with a company estimate that $3 million would be adequate to begin rebuilding a storm damage reserve, based on the 20-year history of actual storm damage incurred by the Company. The reserve's annual accrual amount was raised to $6 million annually by Order No. PSC-94-0852-FOF-EI, issued July 13, 1994, in Docket Nos. 940621-EI, In re: Investigation into Currently Authorized Return on Equity and Earnings of Florida Power Corporation, and 930867-EI, In re: Petition for Authorization to Implement a Self-Insurance Program for Storm Damage to its Transmission and Distribution (T&D) Lines and to Increase Annual Storm Damage Expense by Florida Power Corporation.

Both FIPUG and SMW's witnesses testified that PEF's base rates are not set to cover the costs of hurricanes like those experienced in 2004. PEF witness Portuondo testified that it would be neither practical nor cost-effective to provide coverage for all storm-related costs the Company might experience. Mr. Portuondo further testified that:

> The Storm Damage Reserve is intended to address the likely level of storm costs that might result from study findings that 53% of the storms simulated a total cost of less than $5 million and the probability of a storm occurrence is only 23.3% a year. The annual accruals to the Reserve were not designed to cover costs of potentially catastrophic hurricane seasons because the Company's studies that provided the basis for these accruals have shown a low probability that the most severe storms or series of storms would severely impact its service territory.... When considering these studies in the early to mid-1990's, it was the Commission's considered judgment to avoid collecting from customers the significant additional reserves that would be needed to cover the costs of catastrophic storms that were unlikely to occur. Instead, the Commission decided to provide utilities the opportunity to seek recovery of the costs associated with catastrophic storms if and when the need might arise. As we are all too aware, the hurricane season of 2004 has presented that need.

We note in particular language in Order No. PSC-93-1522-FOF-EI, in which we stated that:

> [FPC] proposes that, in the event that actual experience from storm damage exceeds the reserve balance at any given point in time, the excess costs should be deferred through the creation of a regulatory asset to be recovered from the customers over a five year period through a mechanism to be determined by this Commission.
>
> This Commission already has a rule in place to govern the use of Account 228.1, Accumulated Provision for Property Insurance. Rule 25-6.0143(4)(b), Florida Administrative Code, provides that, "...each and every loss or cost which is covered by the account shall be charged to that account and shall not be charged directly to expenses. Charges shall be made to accumulated provision accounts regardless of the balance in those accounts."
>
> If FPC experiences significant storm related damage, it can petition for appropriate regulatory action. In the past, this Commission has allowed recovery of prudent expenses and has allowed amortization of storm damage expense. Extraordinary events such as hurricanes have not caused utilities to earn less than a fair rate of return. FPC shall be allowed to defer storm damage loss over the amount in the reserve until we act on any petition filed by the company.
>
> No prior approval will be given for the recovery of costs to repair and restore T&D facilities in excess of the Reserve balance. However, we will expeditiously

> review any petition for deferral, amortization or recovery of prudently incurred costs in excess of the reserve.

Id. at 4-5 (Emphasis added).

The intervenors contend that PEF's request to establish a storm cost recovery clause is inappropriate, and for various reasons, runs contrary to the terms of the Settlement which was approved in Order No. PSC-02-0655-AS-EI. As discussed subsequently, we agree that a storm cost recovery clause is not the most appropriate vehicle to collect the amount of any storm-related costs which we authorize herein for recovery. The Intervenors also contend that PEF can not request recovery of its storm-related costs until such time as its retail base rate earnings fall below a 10% ROE, as provided in Section 7 of the Settlement. As addressed here and subsequently in this Order, we do not agree with this assessment.

Neither PEF nor the intervenors could have reasonably foreseen that the outcome of the 2004 hurricane season, and the damages and costs incurred by the utility, would be on an order of magnitude above anything that PEF, or its customers, had previously experienced. PEF incurred incremental costs which were not budgeted nor accounted for through base rates. Indeed, the record evidence suggests it would have been imprudent to require PEF's customers to fund in advance the substantial additional reserves that would be needed to cover the costs of catastrophic storms, which, statistically speaking, were unlikely to occur. At its current level, PEF's storm reserve will cover only a fraction of the expenses incurred by the company to restore service to its customers and repair its T&D facilities damaged by the hurricanes. By Order No. PSC-93-1522-FOF-EI, we contemplated that relief could be made available for a utility which has experienced such extraordinary expenditures, subject to a review of the prudency of those costs.

The Settlement provides that PEF will not petition for an increase in its base rates and charges during the term of the Settlement, and that PEF will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates. Certainly, the recovery of typical storm damages has historically been addressed through the storm reserve and has been budgeted for and recovered through base rates. However, the magnitude of the damages and costs associated with the 2004 hurricane season were unprecedented and extraordinary in nature. Given this extraordinary nature, we do not believe that the incremental costs associated with the 2004 hurricanes constitute a base rate item, such as would be addressed by the Settlement. Recovery of these incremental, prudently-incurred hurricane costs is distinguishable from the types of increases in base rates that is contemplated by the Settlement. Further, PEF is not seeking recovery for capital items which would be barred by Section 12 of the Settlement. The Settlement neither expressly permits nor expressly prohibits the recovery of these extraordinary costs; rather, the Settlement simply does not address the treatment of costs of this unprecedented nature and magnitude. It would be unfair to read the Settlement as barring the recovery of prudently-incurred, extraordinary restoration costs. These are not typical expenses which have been accounted for in base rates. Therefore, we find that neither the Settlement nor Order No. PSC-02-0655-AS-EI should affect the amount or timing of recovery of incremental storm-related costs.

Even if the Settlement were to be read as addressing the incremental costs at issue in this proceeding, in light of the extraordinary circumstances of the 2004 hurricane season and the extent of storm damages incurred by PEF, we would have the discretion to exercise our authority in the public interest to address the costs which are at issue in this proceeding. We have a longstanding commitment to support and encourage negotiated settlements. Further, the principle of administrative finality assures that there will be a terminal point in proceedings at which the parties and the public may rely on an agency's decision as being final and dispositive of the rights and issues involved therein. See Peoples Gas System, Inc. v. Mason, 187 So. 2d 335 (Fla. 1966) (the inherent authority of the Commission to modify its final orders is a limited one).

However, we are also charged to act in the public interest. Assuming for the sake of argument that PEF's proposal were inconsistent with Order No. PSC-02-0655-AS-EI (approving the Settlement), our obligation to act in the public interest nevertheless authorizes us to revisit that Order, should circumstances require it. For example, in Peoples Gas System, supra, the Florida Supreme Court vacated a Commission Order which modified its previous approval of a territorial service agreement. In support of its decision, the Court stated that the vacated order was not entered on rehearing or reconsideration as permitted by our rules of procedure, it was entered more than four years after the entry of the order which it purported to modify, and it was not based on any change in circumstances or on any demonstrated public need or interest. The Court also recognized, however, the differences between the functions and orders of courts and those of administrative agencies, particularly those regulatory agencies which exercise a continuing supervisory jurisdiction over the persons and activities regulated, and which are usually concerned with deciding issues according to a public interest that often changes with shifting circumstances and passage of time. Id. at 339. The Court noted that pursuant to Sections 366.03, 366.04, 366.05, 366.06, and 366.07, Florida Statutes, the legislature has given this Commission broad powers to regulate the operation of electric utilities. Id. Furthermore:

> Nor can there be any doubt that the Commission may withdraw or modify its approval of a service area agreement, or other order, in proper proceedings initiated by it, a party to the agreement, or even an interested member of the public. However, this power may only be exercised after proper notice and hearing, and upon a specific finding based on adequate proof that such modification or withdrawal of approval is necessary in the public interest because of changed conditions or other circumstances not present in the proceedings which led to the order being modified. This view accords requisite finality to orders of the Commission, while still affording the Commission ample authority to act in the public's interest.

Id. at 339-340.

Even if the Settlement were read as prohibiting the recovery PEF seeks in its petition, the evidence adduced in this case demonstrates that the circumstances surrounding the 2004 hurricane season – and the resulting costs incurred by PEF – were unprecedented, and truly extraordinary in nature. At discussed above, PEF's current storm reserve will cover only a fraction of the expenses incurred by the company to restore service to its customers and repair its

T&D facilities damaged by the hurricanes. By Order No. PSC-93-1522-FOF-EI, we contemplated that relief could be made available for a utility which has experienced such extraordinary expenditures, subject to a review of the prudency of those costs.

Neither PEF nor the intervenors could have reasonably foreseen that the outcome of the 2004 hurricane season, and the extraordinary damages and costs incurred by the utility. The facts in this case demonstrate a profound change in circumstances from those under which the Settlement was originally entered and approved. It would be unfair for the utility to be foreclosed from recovering its prudent restoration costs under these circumstances. Our mandate to act in the public interest requires us to balance the interests of both the utilities we regulate and those of the customers. As noted in Peoples Gas System, we have a continuing supervisory jurisdiction over the persons and activities we regulate, and must decide issues according to a public interest that often changes with shifting circumstances and passage of time. Were a determination to be made that the Settlement addresses the costs at issue in this case, in light of the extraordinary circumstances of the 2004 hurricane season and the extent of storm damages and costs incurred by PEF, we would have the discretion to exercise our authority in the public interest to address the costs which are at issue in this proceeding.

DECLINING TO APPORTION COSTS

The Company has proposed that it be allowed to recover all direct costs associated with its storm damage restoration efforts. The intervenors to this docket recommend that we first require PEF to expense that portion of storm damage restoration costs necessary to take the Company's 2004 earned return on equity (ROE) to 10% before allowing PEF to recover the remaining balance of reasonable and prudently incurred storm-related costs. Based on PEF's December 2004 Earnings Surveillance Report, the Company would have to record approximately $113.2 million in additional expenses to reach an ROE of 10.0%.

As discussed above, we find that the Stipulation approved in Order No. PSC-02-0655-AS-EI should not affect the amount or timing of the storm-related costs that PEF can collect from its ratepayers. We expressly stated in Order No. PSC-93-0918-FOF-EI that a regulated company was free to consider a variety of options in the event it petitions for recovery of prudently incurred costs in excess of its storm damage reserve "depending on what the circumstances are at the time."

The intervenors argue that if the Stipulation does not apply in this case to limit PEF's recovery, we should nevertheless apply by analogy some of the principles underlying that Stipulation. In particular, the intervenors contend that PEF should be allowed to recover storm damage restoration costs only to the extent that such costs, if expensed in 2004, would reduce its 2004 earnings below the 10% threshold contained in Section 7 of the Stipulation. All intervenors agree that the total amount of storm damage restoration costs incurred as a result of the 2004 hurricane season, if expensed in 2004, would take PEF's earned ROE below that 10% threshold, such that partial recovery of those costs should be permitted.

We find that it is not appropriate to apply the 10% ROE threshold in the manner advocated by the intervenors. While Section 7 of the Stipulation specifies that PEF may petition for a rate increase only in the event its base rate earnings fall below a 10% ROE, the Stipulation is silent with respect to what return level the Company may be brought back to as a result of its requested rate relief. Moreover, Section 3 of the Stipulation states that "[e]ffective on the Implementation Date, FPC will no longer have an authorized Return on Equity (ROE) range for the purpose of addressing earnings levels, and the revenue sharing mechanism herein described will be the appropriate and exclusive mechanism to address earnings levels." Because PEF does not have an ROE range during the term of the Stipulation, the Company is arguably within its right to petition for recovery of all reasonable and prudently incurred storm-related costs to maintain the return it was otherwise entitled to earn.

We are not convinced that any sharing is appropriate under the circumstances of this case. Consequently, we find it reasonable that PEF shall be permitted to recover from its ratepayers the full amount of the reasonable and prudently incurred storm damage restoration costs as approved herein, without regard to the effect of that recovery on PEF's return on equity.

However, as the intervenor witnesses in this docket have testified, making the ratepayers responsible for the Company's recovery of all reasonable and prudently incurred storm damage restoration costs insulates investors from this risk. We have recognized that cost recovery clauses, such as the storm cost recovery clause proposed by the Company in this docket, have reduced investor risk.

> Each time we approve a clause for the recovery of utility expenses or capital costs, the overall volatility of the utility's earnings before interest and taxes (EBIT) is reduced. This has the effect of reducing business risk. This reduced business risk should then result in a lower average cost of capital (required rate of return) over the long run. While it can be argued that currently authorized ROEs may not reflect the reduced risk resulting from the guaranteed recovery of prudently incurred environmental costs, ROEs set prospectively should reflect this reduced risk.

Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI, In Re: Petition to Establish an Environmental Cost Recovery Clause Pursuant to Section 366.0825, Florida Statutes, by Gulf Power Company, page 14.

PEF witness Portuondo testified that the Company's petition specifically seeks recovery of storm damage restoration costs through a "Storm Cost Recovery Clause." Absent a similar form of statutory authority as is afforded by Section 366.0825, Florida Statutes, PEF's request for a storm cost recovery clause in the instant docket appears analogous to Gulf Power Company's request for an environmental cost recovery clause. This reduced risk exists whether the recovery mechanism is a cost recovery clause or a surcharge.

The requested treatment for the recovery of storm damage restoration costs appears to be more favorable to PEF than the treatment afforded its affiliated utility, Progress Energy

Carolinas (PEC). Witness Portuondo conceded that the regulatory framework in North and South Carolina did not permit PEC to implement a surcharge for the recovery of storm damage restoration costs associated with Hurricanes Ivan and Isabel and the unnamed ice storms that caused significant damage in its service territory. Instead, PEC was required to amortize these costs. To the extent the Company's request for a storm cost recovery is approved, this treatment sends a signal to investors and the market that even in the face of the extensive damage wrought by the "catastrophic and unprecedented" hurricane season of 2004, we continue to be supportive of the financial integrity of PEF and, by extension, the long-run best interests of its ratepayers.

Consistent with our finding in Order No. PSC-94-0044-FOF-EI and the testimony in the record, to the extent that all prudent and reasonable costs associated with storm damage restoration are borne by the ratepayers irrespective of the Company's earnings, investors are exposed to less risk on a going-forward basis. The fact that ratepayers, not shareholders, bear the risk of storm damage cost recovery shall be taken into account in the determination of the Company's investor-required ROE in its next base rate proceeding.

EFFECT OF PEF'S STUDY AND ORDER NO. PSC-94-0852-FOF-EI

Background

By Order No. PSC-93-1522-FOF-EI, we authorized PEF (formerly FPC) to implement a self insurance approach for the costs of repairing and restoring its transmission and distribution systems in the event of hurricane, storm damage or other natural disaster through annual contributions to its storm reserve. In addition, we required PEF to prepare and submit a study evaluating the amount that should be annually accrued to the reserve. The Order further specified at page 4 that:

> FPC's study shall provide information concerning the treatment of T&D damages under its existing policy, a listing of the type of storm-related expenses FPC intends to draw from the reserve fund, and what type of accounting entries will be made for each item.

Pursuant to Order No. PSC-93-1522-FOF-EI, PEF filed its Study in February 1994. By Order No. PSC-94-0852-FOF-EI, we approved a proposal by PEF wherein it agreed to cap its 1994 earnings at a 12.50% ROE, to apply any overearnings to first accelerate the Sebring going concern value and then increase the storm damage accrual, and to permanently increase its storm damage accrual from $3,000,000 to $6,000,000 annually, effective January 1, 1994. The Order stated at page 2 that:

> The appropriate storm damage accrual level is currently under review in Docket No. 930867-EI. A study has been submitted in that docket and our review of that study indicates that an increase above the current $3,000,000 annual accrual is needed. Accordingly, we find that FPC's proposal to permanently increase its storm damage accrual is reasonable and hereby approve the proposal.

This constitutes the sole reference to the Study in Order No. PSC-94-0852-FOF-EI.

Argument of the Parties

At issue is whether, by Order No. PSC-94-0852-FOF-EI, we approved the methodology proposed in PEF's Study concerning the types of costs to be charged to the storm reserve and, in turn, whether our decisions in this docket are limited to determining whether PEF complied with that methodology. PEF's Study proposed a replacement or actual restoration cost approach to determine the storm-related costs charged to the storm reserve; specifically, that the costs of the actual repair activities and those activities directly associated with storm damage and restoration activities would be charged to the reserve. The intervenors contend that we never approved PEF's methodology, and that the correct accrual method is to charge to the storm reserve only those incremental costs incurred over and above PEF's budgeted O&M.

PEF argues that by Order No. PSC-94-0852-FOF-EI, we approved use of PEF's "replacement cost" methodology recommended in the Study, and that a new standard cannot be applied retroactively. Each of the Intervenors takes the position that the Study and Order No. PSC-94-0852-FOF-EI are not legally dispositive of our decisions in this docket concerning what costs are appropriately charged to the storm reserve.

In support of its position, PEF asserts that, pursuant to the Study, it proposed a self-insurance program for T&D storm damage that replicated the operation of third-party insurance. PEF contends that it replicated its prior, third-party T&D insurance methodology by accounting for all direct costs incurred to prepare for, respond to, and recover from the 2004 hurricanes. PEF further states that when this methodology is applied in the self-insurance program, PEF's customers, rather than the third-party insurance company, are responsible for all direct costs incurred during the 2004 hurricanes.

PEF contends that, by Order No. PSC-94-0852-FOF-EI, we specifically considered how to account for storm-related expenses, and also evaluated, accepted, and approved the Study's accounting for storm-related costs and the accrual to the storm damage reserves. PEF asserts that it has applied the methodology for accounting for storm-related costs set forth in its Study for ten years through nine hurricanes and major storms before the 2004 hurricanes without any objection, that we approved this methodology, and that it represents sound regulatory policy. PEF contends that, based on a review of the Study, we had to be aware of the types of costs that PEF would charge to the storm reserve for collection when we accepted the accrual amount in the Study. PEF argues that at no prior time was any question raised about its accounting for storm-related costs, and that to change its method for doing so now is unfair and improper retroactive ratemaking.

In its brief, PEF cites extensively in support of its position to a similar Study which we required Florida Power & Light Company (FPL) to file, which was to address the appropriate amount to be contributed annually to FPL's storm reserve; and the types of costs that FPL intended to charge to its storm reserve. See Order No. PSC-93-0918-FOF-EI (FPL's study, once filed, was addressed in Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, in Docket

No. 930405-EI.) Both PEF and FPL's studies advocate the actual restoration cost approach, without adjustment, with respect to what costs should be charged to the reserve. PEF contends that in Order No. PSC-95-0264-FOF-EI (and in subsequent Order No. PSC-95-1588-FOF-EI, issued December 27, 1995, in Docket 951167-EI, which increased the storm reserve accrual after Hurricane Andrew), we "found the storm damage study submitted by FPL to be adequate;" thus, a similar finding should be read with respect to PEF's Study.

In support of its position, OPC first contends that a separate basis exists for concluding the Study is not dispositive of the appropriate choice of accounting methodology in this docket. In its study, PEF justified the choice of the "replacement cost" methodology with this statement:

> However, the Company believes its insurance program will continue to be a combination of traditional insurance coverage along with some level of self insurance. Any requirement to use an approach other than replacement cost would place undue administrative burden on the Company which would presumably occur at a time when Company efforts would need to be dedicated to restoration of service and related activities.

OPC contends that the only support provided by PEF lies in the claim that maintaining two sets of books – one for insurance claims and another for regulatory purposes – would amount to an administrative burden. OPC cites PEF witness Portuondo as agreeing with this assessment of the study, which confirms that PEF currently has no commercial insurance on transmission and distribution assets. With respect to those categories of plant, OPC contends that the premise of the Study is wholly invalid.

OPC also criticizes PEF's reliance on FPL's study, stating that, like the PEF Study, the principal justification offered by FPL was to avoid the burdens associated with employing two separate accounting methodologies. OPC contends that FPL purported that its total restoration cost was less expensive than an incremental methodology. However, OPC states that this assertion was entirely dependent on treating lost revenues as a cost. Once lost revenues are removed from the equation, the same exercise shows FPL's method to be more expensive than the incremental approach.

In support of its position, FIPUG agrees that PEF disclosed in its Study the method it would use to book costs to the storm damage reserve. Essentially, at that time PEF said costs attributable to the storm would be booked to the storm reserve. However, FIPUG contends that few would realize that the utility meant to include normal costs as storm expense as well as incremental costs the storm brought on. FIPUG notes that since the Study was filed there has never been a docketed proceeding where the methodology that PEF uses to charge costs to the storm damage reserve has been addressed. FIPUG contends that the Study was conducted with base rates in mind, and that in the instant docket, PEF is asking for a guaranteed cost recovery mechanism that is something entirely different. FIPUG asserts that a base rate proceeding enables us to not only examine the prudency of the costs charged, but it also can eliminate "double dipping," related storm costs to an excess depreciation reserve and implement some form of cost sharing by restricting the utility's return.

PEF Study and Order No. PSC-94-0852-FOF-EI Are Not Determinative

Order No. PSC-94-0852-FOF-EI was not intended to approve the methodology proposed in PEF's Study as the standard by which we must determine which costs are appropriately charged to PEF's storm damage reserve. A review of the Order itself, and a review of our other orders, strongly indicate that we did not intend approval for the purpose asserted by PEF in this proceeding.

PEF's request to self-insure was approved by Order No. PSC-93-1522-FOF-EI. That Order required PEF to file the Study for the express purpose of "evaluating the amount that should be annually accrued to the reserve." Order PSC-94-0852-FOF-EI is titled as follows: "Notice of Proposed Agency Action Order Establishing Earnings Cap for 1994, Accelerating Amortization, and Increasing Storm Damage Reserve." The Order itself does not does not remark upon the prudency of, or in any way reference, the methodology PEF recommends with respect to accruing costs to the storm reserve. The Order does not in fact mention the Study at all, except only to state that "[a] study has been submitted in that docket and our review of that study indicates that an increase above the current $3,000,000 annual accrual is needed." Id. at 2. As its title indicates, the Order addresses PEF's proposal to offset any overearnings for 1994 by accelerating amortization on the Sebring going concern value and then by increasing the storm damage accrual, and increasing the storm reserve accrual to $6,000,000 annually.

PEF's reliance on our treatment of FPL's study is misplaced. There is currently an issue as to the legal effect, if any, of FPL's 1993 storm cost study and Order No. PSC-95-0264-FOF-EI have on the decisions to be made in Docket No. 041291-EI. Without prejudicing the determinations to be made in that docket, we note that while we found the FPL study sufficient to indicate the appropriate annual amount to be contributed to FPL's storm reserve, we did not approve the $7.1 million annual accrual proposed in the study. Order No. PSC-95-0264-FOF-EI at p. 4. Further, with respect to the types of costs to be charged to the storm reserve, we did not expressly approve the methodology proposed in FPL's study and made no finding that the methodology was reasonable or appropriate, or was otherwise approved as the continuing standard for charging costs to the storm damage reserve. Finally, we concluded Order No. PSC-95-0264-FOF-EI by finding only that the Study was "adequate." Id. at 6. Not even this at-best highly generalized finding was made in Order No. PSC-94-0852-FOF-EI regarding PEF's Study.

In this context, the only finding that can reasonably be made from Order No. PSC-94-0852-FOF-EI regarding PEF's study is that it indicated that an increase above the then-current $3,000,000 annual accrual was needed, which is precisely – and exclusively – what that Order has to say about the Study. Construing the Order as proposed by PEF – as approving PEF's proposed methodology – requires going beyond the language and findings in the Order.

This view of Order PSC-94-0852-FOF-EI is consistent with our other orders addressing the same issue with respect to the other three large investor-owned electric utilities in Florida. In

particular, in Order No. PSC-95-0255-FOF-EI ("TECO Order")[1], issued approximately one year after Order No. PSC-94-0852-FOF-EI, we addressed the exact same issue with respect to TECO. In that Order, which was entitled "Notice of Proposed Agency Action Order Approving Storm Damage Study," we specifically found that the replacement cost approach proposed in a study submitted by TECO was "a reasonable methodology for determining the appropriate amounts to be charged to the storm damage reserve." We noted that TECO's proposed approach was consistent with the provisions of TECO's prior insurance coverage. Despite having made a specific finding that TECO's proposed approach was reasonable – a finding notably absent from Order No. PSC-94-0852-FOF-EI – we went on to explain the extent of its authority to review costs charged to TECO's storm damage reserve:

> While we sympathize with Staff's concerns regarding the appropriateness of particular proposed expenses listed by TECO, it is our understanding that this list is merely setting forth examples of expenses that the utility may wish to charge against storm damage reserves. The list is a general guideline of categories to be recovered; it is neither all inclusive or exclusive. Because of the unpredictable nature of any given storm, it seems premature to make a determination of the prudency of any particular charge at this time. In the event of a storm, the utility will bear the burden of showing that specific charges against reserves are prudent and reasonable. . . . We retain the right to review the costs and disallow any that are found to be inappropriate.

Order No. PSC-95-0255-FOF-EI, at p. 4. (Emphasis added).

Based on this Order, it is clear that, by retaining our authority to review the prudence and reasonableness of costs charged to the storm damage reserve, we also intended to retain our authority to determine whether a particular *category* of costs was appropriately charged to the storm damage reserve. It remains the utility's burden to show that specific charges against storm damage reserves are appropriate.

A review of Commission orders related to other electric utilities shows that we intended that each utility should be held to the same standard. Most notably, in an Order addressing a request by Gulf Power Company (Gulf) to amortize hurricane-related expenses to its storm damage reserve, we cite the TECO Order in the same breath as Order No. PSC-95-0264-FOF-EI (FPL) as the standard for our review of costs charged to a utility's storm damage reserve:

> The expenses related to the two hurricanes named above have not been reviewed by the Commission. In Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, related to the self-insurance mechanism for Florida Power & Light Company, the Commission stated: "...we have the authority to review any expenses charged to the reserve for reasonableness and prudence." In Order No. PSC-95-0255-FOF-EI, issued February 23, 1995, related to Tampa Electric

[1] Issued February 23, 1995, in Docket No. 930987-EI, In re: Investigation into Currently Authorized Return on Equity of Tampa Electric Company. (TECO)

> Company's self-insurance mechanism, the Commission stated: "[w]e retain the right to review the costs and disallow any that are found to be inappropriate."
>
> In accordance with our prior treatment of expenses related to individual utility self-insurance mechanisms, we retain the right to review Gulf's charges to the Accumulated Provision for Property Insurance Account related to these two storms, at any time, for reasonableness and prudence and to disallow any that are found to be inappropriate.

Order No. PSC-96-0023-FOF-EI, issued January 8, 1996, in Docket No. 951433-EI, In re: Petition for Approval of Special Accounting Treatment of Expenditures Related to Hurricane Erin and Hurricane Opal by Gulf Power Company, at p. 4.

PEF correctly states that at no prior time has a question been raised about its accounting for storm-related costs. However, this fact serves only to bolster the position that the methodology has indeed never been approved or in any manner been put at issue prior to the instant docket. Had we intended that Order PSC-94-0852-FOF-EI give approval to PEF's methodology, it would have expressly stated as much, and several if not all intervenors in the instant docket would have almost certainly objected to such a decision at that time. Certainly, we do not support a reading of Order PSC-94-0852-FOF-EI which would require this Commission to abrogate its authority to review the prudence and reasonableness of costs, or categories of costs, charged to a utility's storm damage reserve.

In conclusion, we find that Order No. PSC-94-0852-FOF-EI was not intended to approve the methodology proposed in PEF's Study as the standard by which we determine the costs to be appropriately charged to PEF's storm damage reserve. In Order No. PSC-94-0852-FOF-EI, we did not expressly approve the methodology proposed in PEF's study, and made no finding that the methodology was "reasonable" or "appropriate" or otherwise should be used as the continuing standard for charging costs to the storm damage reserve. We agree with the intervenors that PEF has failed to provide adequate justification as to why its methodology is the one which should be used in this proceeding. Therefore, our determination as to which costs are appropriately charged to PEF's storm damage reserve shall be made consistent with our findings in the other issues.

ADJUSTMENTS TO STORM-RELATED COSTS

Non-Management Employee Labor Expense

PEF is seeking recovery of non-management employee labor expense incurred during the 2004 hurricane restoration activities. OPC contends that PEF's proposal has customers paying twice for its non-managerial employees' regular salaries. OPC witness Majoros testified that PEF proposes to charge the full labor costs associated with storm recovery efforts to the storm damage reserve. He further testified that by moving all expenses associated with storm restoration to the storm reserve, without consideration of the normal level of expenditures funded through base rates, PEF has effectively required customers to pay twice for those costs. Mr.

Majoros stated that this practice is referred to as double dipping. OPC further argues that PEF is attempting to obfuscate the issue of double dipping by bringing up the issue of its catch-up work. Mr. Majoros concluded that regular pay salaries for bargaining unit and non-exempt employees, for both PEF and the service company, should be removed from the storm damage reserve.

FIPUG witness Sheree Brown testified that PEF's proposal seeks to hold PEF harmless from any damages related to the storms, while increasing costs to residents and businesses in PEF's service territory. Further, Ms. Brown stated that PEF's proposal seeks 100% cost recovery from consumers, with no contribution from PEF. She asserted that PEF has reduced its normal O&M expenses and has shifted these costs to hurricane damage accounts. This cost shifting resulted in favorable variances. She further explained that the favorable variances indicate that PEF spent less than it had originally budgeted, and that PEF's earnings from base rate revenues increased. Ms. Brown concluded that we should reduce PEF's storm damage claim by the amount of normal O&M expenses that were shifted into the storm damage accounts, and that these costs should be expensed during the time period incurred. She further stated that any future expenses charged to the storm damage accounts should be limited to verifiable incremental costs incurred over and above PEF's budgeted O&M.

Ms. Brown explained under questioning that the decline in the Company's O&M cost from August through October indicated that costs were shifted out of normal O&M over into the storm damage account. She further explained that "[p]utting your finger on the actual amount, I believe, is an insurmountable task that we don't have the evidence now, and I don't even believe that Progress Energy has the, has the knowledge of, of being able to tie down the exact numbers." Ms. Brown concluded that her recommended adjustment to bring PEF's ROE down to the 10% level in 2004 takes into account all the double dipping issues and it resolves them. As discussed below, we disagree with Ms. Brown's ROE adjustment.

PEF witness Wimberly testified that PEF charged all direct costs related to the hurricanes to the storm damage reserve. He also stated that budgets cannot be used as a tool to predict and account for the cost of hurricanes. However, Mr. Wimberly acknowledged that the purpose of the budget is to predict and anticipate ordinary costs on an annual basis, including such costs as regular salaries. Mr. Wimberly further testified that PEF has incurred and continues to incur additional costs from overtime and contract labor for catch-up work which was estimated to be over $25 million. However, on cross-examination by PEF, Mr. Majoros testified that "[e]ven if some of the tasks have shifted to the future periods, the flexibility of the budgeting process may easily accommodate them." Mr. Majoros asserted that PEF should be required to demonstrate that it will incur financial harm as a consequence of the catch-up tasks following the completion of storm repairs and that it has failed to do so in this docket.

Under cross-examination, Mr. Wimberly also acknowledged that when PEF's employees reported for the regular workday and if that day was spent working on storm-related matters, then the regular eight-hour workday was charged to storm accounts. Mr. Wimberly asserted that if work is related to hurricane restoration, then those costs related to that work is automatically extraordinary and chargeable to the storm accounts. He also acknowledged that a normal eight-

hour workday is not an extraordinary cost. Mr. Wimberly also agreed that there was nothing attached to his direct testimony to support the $25 million in catch-up work.

PEF witness Portuondo testified that PEF is seeking to enforce only its understanding reached and followed since 1993 concerning how PEF should account and recover for direct storm-related expenses. Mr. Portuondo testified that PEF is not "gaming" the system by shifting normal labor costs covered by base rates to storm accounts reimbursable through a special cost-recovery clause resulting in double dipping. He asserted that Ms. Brown reaches her conclusion that the Company engaged in cost shifting by looking at only part of the picture. Mr. Portuondo further stated that PEF's normal demands did not go away during the storms.

Mr. Portuondo explained under questioning that there are a number of tasks that still need to be accomplished, including Commission proceedings and SEC financial reporting obligations. Mr. Portuondo asserted that PEF will not recover its costs incurred since its does not have revenues coming in, and if the revenue is not coming then PEF is not getting the revenues that would directly offset those costs. However, Mr. Portuondo acknowledged that, prior to Hurricane Andrew, PEF's insurance did not cover lost revenues. On cross-examination by PEF, OPC witness Majoros testified that the catch-up work estimates should not be an issue in this case since the Company did not make a claim for lost revenues, and PEF achieved positive revenue variances according to its internal management budget presentations.

We agree with OPC witness Majoros that base rates support a budgeted level of O&M expense, and that shifting normal (budgeted) O&M expenses into the storm reserve account would constitute double recovery. Based on the evidence in the record, we find that a favorable budget variance is a reasonable indicator that normal costs were shifted to the storm reserve account based on PEF's actual restoration cost approach. It is the utility's burden to prove that its requested costs are reasonable. Florida Power Corporation v. Creese, 413 So. 2d 1187, 1197 (Fla. 1982). We find that PEF has failed to: 1) demonstrate that its customers would not pay twice for its normal non-management labor expense; 2) quantify any amount of lost revenues; and 3) support its estimated amount of catch-up costs as a result of the 2004 hurricane season. Therefore, PEF's non-management employee labor expense, except for customer service employees which are later discussed, shall be adjusted to reflect only the incremental costs above its budgeted levels for the year end 2004. To prevent PEF from collecting twice for its employees' regular pay, we shall disallow $5,140,639 of the amount PEF charged to the storm reserve. In doing so, we note that "it is the [Commission's] prerogative to evaluate the testimony of competing experts and accord whatever weight to the conflicting opinions it deems necessary." Gulf Power Co. v. FPSC, 453 So. 2d 799, 805 (Fla. 1984).

Managerial Employee Payroll Expense

PEF is seeking recovery of managerial employee payroll expenses incurred during the 2004 hurricane restoration activities. OPC witness Majoros concluded that regular pay salaries for exempt employees, for both PEF and the service company, should be removed from the storm damage reserve. As discussed below, we disagree with FIPUG witness Brown's ROE adjustment in order to account for any double recovery concerns. As discussed above, the utility

has not met its burden to support its lost revenues and catch-up work arguments to refute the double recovery concerns. We also agreed with OPC witness Majoros that base rates support a budgeted level of O&M expense, and that shifting normal (budgeted) O&M expenses into the storm reserve account would constitute double recovery.

PEF's attempt to distinguish its practice from double recovery based on the type of work performed is not supported in the record. Further, PEF has neither demonstrated that its customers would not pay twice for its managerial labor expense, nor supported its estimated amount of catch-up costs as a result of the 2004 hurricane season. Accordingly, PEF's managerial employees' labor expense, except for customer service employees which is discussed below, shall be adjusted to reflect only the incremental costs above its budgeted levels for the year end 2004. To prevent PEF from collecting twice for its managerial employees' regular pay, $6,197,565 of the amount PEF charged to the storm reserve shall be disallowed.

Time Period to Cease Charging 2004 Storm Costs

Also at issue in this proceeding is the point in time that PEF should stop charging 2004 storm restoration costs to the storm damage reserve. OPC witness Majoros testified that PEF plans to charge hurricane-related work still remaining after the storms have passed and operations have returned to normal. Mr. Majoros contends that PEF should stop charging 2004 hurricane-related costs to the storm account when PEF employees have returned to regular hours and the work is being performed by PEF employees and the contractors whom PEF engage on a routine, ongoing basis. However, OPC states that determining the proper point has been difficult to determine.

FIPUG and FRF agreed that charges to the storm reserve should cease no later than January 1, 2005. However, PEF witness Rogers testified that the majority of the crews assigned to the repair of the transmission system were still working ten-hour days, five or six days a week to complete the catch up and restoration work, including "sweeps" work[2]. PEF witness Lyash testified that restoration work should be completed by the second quarter of 2005. PEF witness McDonald was unable to state whether crews assigned to the repair of the distribution system had returned to a normal work week.

Given the extensive repairs necessary to PEF's system, we find it is unrealistic to stop accruals to the storm damage reserve at the conclusion of storm restoration activities or January 1, 2005, whichever occurred first. Even using the latest date of January 1, 2005, for the completion of all repairs, as FIPUG and FRF recommend, allows PEF less than a three-month period of time after the hurricanes to make these repairs. As discussed above, PEF was still incurring overtime costs for repairs after that date; in fact these repairs were continuing through the hearings in this case in late March, 2005. We therefore find that is reasonable and

[2] PEF Witness Wimberly referred to "sweeps" as work that could not be doing during the initial restoration process because the goal is to restore power as quickly and safely as possible. The objective of sweeps work is to "sweep" the T&D systems, determine the remaining storm damage, and restore the facilities and equipment to their condition prior to the hurricane.

appropriate that PEF shall stop charging costs related to the 2004 storm season, including sweeps works, no later than July 1, 2005.

Employee Training Costs

PEF incurred employee training costs associated with 2004 storm restoration activities. PEF witness Rogers testified that the Transmission Department's Storm Plan consisted of four elements. Those elements are pre-season activities, pre-storm activities, damage assessment and repair, and recovery follow-up activities. Ms. Rogers also stated that the pre-season activities included the necessary arrangements prior to the storm or hurricane season to insure that the Company was prepared. Ms. Rogers later testified that pre-season activities occur on a yearly basis, and as a result costs are included in the annual budget.

OPC states that employee training, including storm restoration training, is part of the normal operations of the Company and should not be charged to the storm damage reserve. Both Mr. McDonald and Ms. Rogers testified that no pre-season hurricane costs were charged to the storm account. PEF testified that there are no pre-season storm training costs charged to the storm account, and there is no indication in the record by any other party that there were any improper costs charged to the account for employee training for storm restoration work. We therefore find that it is reasonable that no adjustment shall be made for employee training costs.

Tree Trimming Costs

PEF requested recovery for tree trimming costs associated with the damage caused by Hurricanes Charley, Frances, Jeanne, and Ivan. OPC contends that PEF should be allowed to charge only the incremental cost of tree trimming above its normal, budgeted levels for the calendar year 2004. Based on information provided by PEF, OPC witness Majoros testified that PEF's tree trimming expenses were under budget for the months during and following the hurricanes. He asserted that base rates support a budgeted level of O&M expense, and that moving all expenses associated with the storm repair effort to the storm reserve, without taking into account the normal level of expenditures funded by base rates, that PEF is "double dipping." Mr. Majoros concluded that there should be a $3.9 million adjustment based on the favorable (under-budget) variance for tree trimming as of October 2004.

PEF witness Wimberly testified that the tree trimming budget for December 2004 showed that it was unfavorable (over budget) by $2.8 million, but was favorable (under budget) by $1.4 million for the year-end 2004. Through cross-examination by PEF, Mr. Majoros did agree that his $3.9 million adjustment for tree trimming should be changed based on Mr. Wimberly's rebuttal testimony. Mr. Majoros stated that because Mr. Wimberly testified that PEF was over-budget by $2.8 million, the adjustment should be zero. Through redirect examination, however, it became clear that Mr. Majoros had mistakenly believed that the $2.8 million unfavorable variance was for the entire calendar year 2004, rather than for only the month of December 2004.

During cross-examination, PEF witnesses McDonald and Mr. Wimberly explained that restoration tree trimming is different from PEF's budgeted production trimming. Restoration or spot trimming involves identifying individual trees/limbs that are interacting with the Company's

facilities and hindering the ability to restore service. Production trimming involves trimming based on the growth patterns of trees that occur in the Company's right-of-ways. Mr. Wimberly further added that production trimming is paid on a per-mile basis.

As discussed below, we disagree with FIPUG witness Brown's ROE adjustment in order to account for any double-dipping concerns. As discussed previously, we do not believe that the utility has met its burden to support its lost revenues and catch-up work requests to refute the double dipping concerns. We agree with OPC witness Majoros that base rates support a budgeted level of O&M expense, and that shifting normal O&M expenses into the storm reserve account constitutes double dipping.

Without the level of information from a detailed incremental cost analysis, which was not provided, we find that a favorable budget variance is a reasonable indicator that normal costs were shifted to the storm reserve account under the Company's actual restoration cost approach. It is the utility's burden to prove that its requested costs are reasonable. See Florida Power Corporation v. Cresse. We note that PEF has failed to demonstrate that the customers would not be paying twice for the normal tree trimming expenses. Based upon the evidence of record, we find that PEF shall be allowed to charge only the incremental cost of tree trimming above its normal, budgeted levels for the calendar year 2004. As a result, $1.4 million of the amount PEF charged to the storm reserve shall be disallowed.

Company-Owned Fleet Vehicle Costs

PEF incurred transportation costs associated with its hurricane restoration activities, including operating costs, fuel expense, and repair and maintenance expense of its fleet vehicles. OPC contends that PEF is seeking to charge vehicle depreciation expense and base levels of operating costs to the storm reserve. Based on information provided by PEF, OPC witness Majoros testified that PEF's storm reserve account includes the following Company-owned fleet vehicle expenses: 1) $909,000 for depreciation; 2) $702,000 for fuel; 3) $1.6 million in maintenance; and 4) $222,000 in overhead. He stated that although Company vehicles have been used in the storm recovery effort, these vehicles have already been included in the annual budget. He asserted that base rates support a budgeted level of O&M expense. He further testified that, by moving all expenses associated with the storm repair effort to the storm reserve, without taking into account the normal level of expenditures funded by base rates that customers pay, PEF effectively requires customers to pay twice for the costs.

Mr. Majoros stated that depreciation and vehicle overhead would be the same regardless of whether they are used for storm damage restoration or used in the regular course of business. He asserted that the only extraordinary vehicle cost that the Company incurred is the incremental cost of fuel, due to longer daily operations. Based on the assumption that vehicles were in use 16 hours per day during storm restoration, rather than the normal 8 hours per day, Mr. Majoros recommended that one-half of the fuel expense be included in the storm reserve. Mr. Majoros concluded that an adjustment of $3,043,015 related to vehicle expense should be removed from the amount PEF charged to the storm reserve account.

PEF witness Wimberly stated that the Company charged all direct costs, including vehicle expense, related to the hurricanes to the storm reserve consistent with long-standing Commission orders, policy, and utility practice, as explained in the rebuttal testimony of PEF witness Portuondo. Mr. Wimberly argued that Mr. Majoros' adjustment to reduce the fuel cost by half is based on the actual money spent on fuel during the hurricane restoration process, not the budget. Mr. Wimberly contended that Mr. Majoros overreaches here because he made no effort to determine the budgeted amount of fuel for the days of the hurricane restoration effort from the annual Energy Delivery budget for 2004. In its brief, OPC argued that Mr. Wimberly does not refute that these vehicles would be used 8 hours per day irrespective of the storms.

As stated previously, we disagree with FIPUG witness Brown's ROE adjustment in order to account for any double-dipping concerns; further, we find that the utility has not met its burden to support its lost revenues and catch-up work arguments. We agree with OPC witness Majoros that base rates support a budgeted level of O&M expense and that shifting normal O&M expenses into the storm reserve account would constitute double dipping. We also agree with Mr. Majoros that vehicle depreciation, maintenance, and overhead would be incurred regardless of the storms in 2004. It is the utility's burden to prove that its requested costs are reasonable. See Florida Power Corporation v. Cresse. PEF has failed to demonstrate that the customers would not be paying twice for the normal vehicle expenses and failed to quantify any incremental increases for fuel, maintenance, and overhead. Based upon the evidence of record, we find that is reasonable and appropriate that PEF shall charge only the incremental fuel costs associated with extra shifts. As a result, $3,043,014 million of the amount PEF charged to the storm reserve shall be disallowed.

The following table shows the calculation for how we arrived at our approved vehicle expense adjustment:

Depreciation	$ 909,352
Half of Fuel Expense ($702,796/2)	350,898
Maintenance	1,560,600
Overhead	222,164
Total Vehicle Expense Adjustment	$3,043,014

Call Center Activity Costs

PEF incurred a range of communications costs associated with the 2004 hurricanes, related to awareness, customer preparation, outage reporting instructions, and safety. A portion of those costs are related to PEF's call centers, which handled outage calls and helped answer customer questions. As stated by witness Lyash, the total cost for communications associated with the four storms, including the Customer Service Center activities, was $3.6 million. PEF stated that it has not deducted its budgeted O&M expenses from the storm reserve.

OPC contends that PEF should charge only extraordinary levels of the call center expenses, incremental to the normal levels, to the storm damage account. OPC witness Majoros stated that OPC developed some guidelines designed to ensure that only extraordinary expenses would be booked to the storm reserve account and he endorsed those guidelines. Mr. Majoros testified that call center activities should be excluded except for non-budgeted overtime associated with the storm event. He further testified that, by moving all expenses associated with the storm repair effort to the storm reserve, without taking into account the normal level of expenditures funded by base rates that customers pay, PEF effectively requires customers to pay twice for the costs. Mr. Majoros asserted that call center expenses for the storm cost recovery should be limited to the call overloads created by the storms.

Mr. Majoros stated that he had reviewed PEF's internal management budget presentations to determine the amount of normal O&M expenses shifted to the storm reserve. Although PEF's internal budget has been reviewed by Mr. Majoros, in its brief, OPC stated that it has not formulated a numerical adjustment for call center activities at this time. We note that FIPUG witness Brown testified that it is an insurmountable task to put your finger on the actual amount of normal O&M expenses shifted to the storm reserve because she does not believe PEF has the knowledge to enable the utility to tie down the exact numbers. We agree, in principle, with Mr. Majoros that call center activities should be excluded except for non-budgeted overtime associated with the storm event because the normal payroll expense is recovered through base rates.

In determining the appropriate amount of labor payroll in the storm reserve, we previously found that the regular salaries of management and non-management employees, except for call center employees, that were charged to the storm reserve shall be disallowed. PEF provided a breakdown of the total salaries charged by department and by type of pay (i.e. regular, extended pay, special pay, double time, and overtime, etc.). PEF recorded total "FPC Customer Service" payroll expense of $1,063,949 in the storm reserve. PEF witness Lyash testified that PEF had over 425 associates dedicated to handling outage calls during the storms and that there are normally 250 customer service representatives handling calls 24 hours a day, seven days a week. As such, this indicates that approximately 59% (250 normal employees divided by 425 employees designated during the storms) of call center expenses charged to the storm reserve were normal expenses.

It is the utility's burden to prove that its requested costs are reasonable, and PEF has failed to demonstrate that the customers would not be paying twice for the normal call center expenses. Based on the evidence in the record, we find that it is reasonable to disallow $625,852 (approximately 59% of $1,063,949) from the amount PEF charged to the storm reserve. Further, consistent with Mr. Majoros' testimony, in the future, PEF shall adjust call center activity expenses charged to the storm reserve by the incremental difference of call load experience during and immediately after hurricanes with the actual prior 3-year average call load during the same time period involved.

Advertising and Public Relations Costs

PEF seeks recovery for communications costs associated with providing information to the public, local and state officials, and the media. PEF witness Portuondo testified that PEF charged special advertising and media costs associated with customer information, public education and safety to its Storm Damage Reserve. PEF witness Lyash testified that PEF's communication plan includes proactive advertising and media communication of public awareness and safety messages before, during, and after the storm; working with the media to provide customers with estimated times of restoration; communicating directly with individual customers; and communicating with local, county, and state officials to keep them informed of PEF's activities.

In his prefiled testimony, witness Lyash describes PEF's extensive communication effort before, during, and following the four storms. PEF's efforts included, but were not limited to, reinforcing key preparation and safety messages to its customers through print, radio, and television, increasing staffing in its Customer Service Centers to provide the latest information to its customers, and providing professional personnel for each county Emergency Operations Center as well as the state Emergency Operations Center. PEF witness McDonald testified regarding the importance of frequent communications to state and local governments, the Commission, and PEF's retail commercial, industrial, governmental, residential and wholesale customers. As witness McDonald testified, these constituencies are dependent upon the communicated information to make critical decisions of their own, therefore the timeliness and accuracy of PEF's status reports are critical.

As stated by witness Lyash, the total cost for communications associated with the four storms, including the Customer Service Center activities addressed above, was $3.6 million. PEF indicates that this $3.6 million has been included in the O&M expenses for which the utility seeks recovery of $251.9 million.

OPC, Sugarmill Woods, AARP and FRF take the position that we should disallow $2,428,891, or the rounded $2.4 million, in advertising and/or public relations expense. FIPUG takes the position that PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred, but it has not quantified the incremental amount. Further, it cannot be determined how the $2,428,891 stated in the other parties' positions was derived or why it differs from PEF's $3.6 million. OPC witness Majoros testified that the amount charged to the storm damage reserve account should exclude all expenses associated with advertising expense. He also testified that he was unable to quantify the call center expenses, which is part of the $3.6 million.

In Commission proceedings, advertising expenses are generally examined on a case-by-case basis. If the utility's advertising expenses are found to be informational, educational or safety-related in nature and beneficial to its ratepayers, we generally allow recovery. If, on the other hand, advertising expenses are found to be institutional, image-building or provide no benefit for the regulated ratepayer, we generally disallow recovery. See Order No. PSC-02-0787-FOF-EI, Docket No. 010949-EI, issued June 10, 2002, In re: Request for rate increase by

Gulf Power Company; Order No. PSC-03-0038-FOF-GU, Docket No. 020384-GU, issued January 6, 2003, In re: Petition for rate increase by Peoples Gas System; Order No. PSC-04-0128-PAA-GU, Docket No. 030569-GU, issued February 9, 2004, In re: Application for rate increase by City Gas Company of Florida; Order No. PSC-04-0565-PAA-GU, Docket No. 030954-GU, issued June 2, 2004, In re: Petition for rate increase by Indiantown Gas Company; and Order No. PSC-04-1110-PAA-GU, Docket No. 040216-GU, issued November 8, 2004, In re: Application for rate increase by Florida Public Utilities Company.

We have no reason to believe that the costs that were expended for advertising, communications, and public relations expense fail to meet our criteria of being recoverable, as they are believed to be informational, safety-related, and beneficial to PEF's regulated ratepayers. In addition, due to the circumstances of the four back-to-back storms, we find that these costs were expended under extraordinary circumstances. However, as shown by witness Lyash, the advertising and public relations expenses are closely related and combined into the $3.6 million category included in PEF's request for storm damage recovery. Furthermore, as stated throughout this Order, we are approving recovery through the storm recovery reserve of only the costs that are over and above normal O&M costs.

Because the record does not establish the normal advertising and public relations expense, and because of the apparent close interrelationship between the Customer Service Center, advertising expenses and public relations expenses, we find that it is reasonable to apply the same percentage applied to call center expenses, i.e. 59%, to the remaining $2,536,051 with respect to advertising and public relations costs ($3,600,000 less $1,063,949 [payroll]). The resulting $1,496,270 shall therefore be disallowed. This $1,496,270 adjustment is in addition to the $625,852 reduction for Customer Service Center personnel previously approved. Further, in the future, PEF shall exclude budgeted advertising and public relations expense from its storm damage reserve.

Uncollectible Expenses

PEF is seeking recovery for $2.25 million in bad-debt write-offs due to storm damage. PEF witness Portuondo testified that the Company included in its O&M costs charged to the storm reserve all actual repair activities and those activities directly associated with storm damage and restoration activities. He further stated that one of the items PEF charges to the Storm Damage Reserve is identifiable bad debt write-offs due to storm damage.

OPC, SMW, AARP and FRF take the position that we should disallow the $2.25 million. The intervening parties believe that uncollectible expense should not be included because it does not fall into the category of repairing PEF's system and restoring service. Further, they believe that it cannot be determined if the uncollectible expense was attributable to the storms.

OPC witness Majoros stated that OPC's Storm Damage Guidelines specifically exclude uncollectible expense. He testified that the amount is speculative, and unlike other types of expenses which will ultimately be trued-up, uncollectible expense is likely to remain speculative as there is no way to determine if a customer's account must be written off specifically due to the

storm, or for other reasons. Witness Majoros goes on to state that PEF has failed to demonstrate the actual amount of uncollectible expense it may have incurred due to the storms.

We find that there can be a direct relationship between hurricane activity and the level of bad debts that is supportable if not directly identifiable. Also, bad debt expense should not automatically be excluded from recovery through the storm damage reserve simply because it does not fall into the category of repairing PEF's system and restoring service.

PEF witness Wimberly testified that there was an increase in bad debts incurred during the course of the hurricanes. Mr. Wimberly stated that the bad debt costs have increased and are coming in as predicted. The Company produced Late-Filed Exhibit 52, entitled Description of the Normal Accounting for Bad Debt. The description outlines PEF's normal accounting for bad debt expense and the effect on related accounts, including the reserve. The exhibit also included PEF's calculation of $2.25 million, which is the combination of two separate components. First, the July 29, 2004, projection of net write-offs for 2005 was $5.7 million, versus the September 5, 2004, projection of $7.3 million for 2005, which represents a $1.6 million increase from escalated arrears from Hurricane Charley. According to the Company, this $1.6 million did not include the impacts of Hurricanes Frances, Ivan, or Jeanne. Second, the projection of the remaining $650,000 is included to represent the potential maximum impacts of all four storms.

Our staff reviewed PEF's methodology and accounting process for recording bad debt and the related accounts, as well as this Commission's past practice of handling uncollectible expense and the bad debt factor in base rate proceedings. Not carving out the uncollectible expense that is directly related to the storms for recovery through the Storm Damage Reserve could result in the write-offs that are directly attributable to the storms being rolled into future base rates through the rolling 12-month average, or it could result in no recovery at all, depending upon how these costs are viewed in rate case proceedings. We find that allowing recovery through the storm damage reserve will help prevent the possible skewing of bad debt expense and the bad debt factor, which is a component of the base rate revenue expansion factor. Therefore, we find that it is preferable to recover the write-offs that are directly related to the hurricanes through the Storm Damage Reserve.

PEF has shown that its $2.25 million of uncollectible expense for 2005 is directly associated with storm damage and restoration activities and that the Company's testimony supports that it is experiencing bad debt costs that are in line with its $2.25 million predictions. For the above reasons, we approve PEF's request to recover $2.25 million of bad debt expense through the storm cost recovery mechanism that we establish herein. However, any recoveries of the directly related uncollectible expense shall be credited to reduce the amount of unrecovered storm damage costs.

Revenues for Assistance With Storm Restoration Activities

Also at issue in this proceeding was whether PEF should be required to offset its storm damage recovery claim by revenues it received from other utilities for providing assistance in those utilities' storm restoration efforts. Specifically, FIPUG witness Brown testified that PEF

assisted Dominion Power with its restoration efforts after Hurricane Isabel, and that the Company was reimbursed $1.1 million for labor and associated taxes and benefits. Ms. Brown argued that the normal hourly costs for those PEF employees that assisted would have already been recovered through base rates. She stated that PEF also assisted Entergy in restoration efforts after Hurricane Lili and assisted Progress Energy Carolinas, Inc. (PEC) in storm restoration efforts.

Ms. Brown asserted that if PEF is allowed to recover its storm damage costs through a recovery clause, it should not be allowed to retain any revenues received for assisting other utilities in their restoration efforts to the extent that the revenues were to reimburse PEF for normal O&M expenses. She argued that it would constitute double dipping, if the revenues received for normal wages, benefits, and payroll taxes of PEF employees who assisted other utilities in their restoration efforts were not offset against PEF's storm damage expenses. Ms. Brown concluded that PEF should be required to credit the storm damage reserve in the future by revenues received for normal wages, benefits, and payroll taxes when assisting other utilities in storm-related activities.

PEF witness Portuondo testified that Ms. Brown ignores the fact that PEF employees who were diverted from their normal tasks had to return to those activities after they completed their assistance to other utilities. He stated that the services which those employees performed outside PEF's service territory did not benefit its customers nor did its customers pay for those services. Mr. Portuondo argued that PEF used the base rates it collected from customers to pay for the normal work that these employees were expected to perform before and after their out-of-state assignment. He explained that, at the same time, the Company used the revenues collected from other utilities to defray the cost of the services these employees provided outside PEF's territory. Mr. Portuondo concluded that it was illogical to credit PEF's customers with revenues collected outside its territory for work that benefited other customers.

We agree with PEF witness Portuondo that no credit should be made for revenues collected outside its territory for work that benefited other customers. The assistance provided by PEF employees to other utilities has no direct relationship with storm damage expenses that the Company incurred as a result of the 2004 hurricanes. Based on the evidence in the record, we find that it is reasonable to make no adjustment to the storm reserve for any revenues received for assisting other utilities in their restoration efforts.

Retirement of Damaged Plant-In-Service

PEF removed an estimated $47 million from the storm reserve and applied that amount to its plant-in-service accounts. This remained at issue in this proceeding, according to the following stipulation which we have approved herein:

> With respect to replacements of plant items associated with 2004 post-storm repair and restoration activities, the parties stipulate and agree that PEF shall book to plant in service the normal cost of new plant additions under normal operating conditions, and shall book to the storm reserve (as extraordinary O&M) only the costs of new plant additions that exceed those normal amounts. PEF stipulates

> and agrees to verify that it has implemented this methodology and to provide final values for the portions of costs associated with new plant additions that it has booked to plant in-service and to the storm damage reserve, respectively, after it has completed the booking of relevant costs. PEF's current estimate of costs that it will book to plant in service using this methodology is approximately $47 million dollars.
>
> This partial stipulation addresses only the appropriate accounting methodology to be employed for the accounting of costs associated with plant replacements, and does not prevent any party from challenging the reasonableness or prudence of any individual cost item. Further, the partial stipulation does not address the aspects of Issue 12 that treat retirements and cost of removal expense, which remain at issue.

The staff audit report of PEF in this docket, sponsored by Staff witness Jocelyn Y. Stephens, stated that the audit was conducted to summarize storm costs by storm and resource type and selected resource categories for testing. Witness Stephens provided two audit disclosures relevant to the issue of retirements and the cost of removal expense. Audit Disclosure No. 1 addresses the capital expenditures. She stated that after reviewing the monthly accrual to the storm damage account, PEF was unable to indicate which of the actual costs would be transferred to plant and which would be transferred to O&M expenses. As stated above, PEF stipulates and agrees to book to plant in service the normal cost of new plant additions under normal operating conditions, and shall book to the storm reserve (as extraordinary O&M) only the costs of new plant additions that exceed those normal amounts.

Audit Disclosure No. 3 addresses removal labor costs. According to Staff witness Stephens, PEF isolated dollars for removal labor cost but did not include these dollars in the capital estimate total. Staff witness Stephens recommended that an adjustment be made to remove these costs from the storm reserve account and include them in the capital account.

PEF witness Portuondo stated that it was PEF's intent all along to make sure that the cost of removal was removed from the total final storm damage reserve as well as any other capital related expenditures. Mr. Portuondo testified that PEF intends to retire approximately $19 to $20 million of plant associated with storm damage. He also said that the ratio of cost of removal to retirements is approximately 5%. Mr. Portuondo stated that the 5% ratio assigned to cost of removal vs. retirements is the amount PEF would have envisioned expending to accomplish the removal of the retirements. He also stated that PEF has estimated approximately $1.2 million for storm related cost of removal based on this percentage. Mr. Portuondo admitted that the cost of removal rate is much lower than the PEF consultant's theoretical calculation in its current depreciation study.

OPC witness Michael J. Majoros believes that PEF has failed to provide the necessary accounting documentation that demonstrates the procedures it will apply for plant additions, cost of removal, and capital replacements made necessary by storm damage. He stated that PEF should provide the actual cost of removal accounting entries. He further states that PEF's current

cost of removal reserve for transmission and distribution facilities ($528 million) compared to the cost of retirements is 42%. Mr. Majoros testified that the cost of removal expense due to storm damage should be recalculated using the ratio derived from PEF's current depreciation study or PEF's most recent study that relates current cost of removal to the cost of retirements. He stated that if the most recent depreciation study ratio (42%) was used by PEF, then the minimum cost of removal would be $8.4 million.

We find that the cost of removal expense, which was not stipulated and remains at issue, needs to be adjusted. PEF's past depreciation studies show that the ratio of the cost of removal to the cost of retirements is significantly higher than the 5% that PEF has assigned. Information provided by PEF to OPC was the basis for Mr. Majoros' calculation of 42% for cost of removal to cost of retirements. According to PEF's response to OPC's third set of interrogatories:

> When the final cost of all Hurricane replacement assets installed is calculated, PEF will record a charge for all calculated removal cost to the accumulated depreciation expense account for the calculated removal cost. To date this transaction has not been recorded as final cost and all work has not been completed related to all fixed asset replacements. The removal cost will be treated similarly to the replacement of fixed assets and will not be applied to the storm damage fund.

We agree with PEF's assertion that it collects the cost of removing an item of plant through depreciation rates supported by the base rates, and that those costs will not be applied to the storm damage fund. We find that any calculated removal costs for plant damaged or destroyed by the Hurricanes shall reflect the rate that PEF is currently using to calculate removal cost. We disagree with PEF that 5% of retirements is the rate that PEF should use to calculate storm damage removal cost. PEF has not provided any evidence in the record to support the use of this rate.

We find that the 42% ratio used by Mr. Majoros is a reasonable number, and is supported by the record. Therefore, the storm damage reserve shall be adjusted by $8.4 million, and this amount shall be included in PEF's capital account.

Appropriate Costs to be Charged Against the Storm Damage Reserve

As discussed above, we have made several adjustments to the costs that PEF seeks to recover in this proceeding, from which we must then determine the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve, subject to true-up.

PEF witness Portuondo testified that PEF's self-insured storm damage reserve currently accrues $6 million annually and will have a balance of $46.9 million as of December 31, 2004, before any offset for storm-related costs in 2004. He stated that the storm-related costs experienced by PEF are currently estimated at approximately $366.3 million on a total system basis. Of this amount, Mr. Portuondo explained that approximately $311.4 million are storm-related O&M expenses on a total system basis. He stated that PEF has incurred capital

expenditures of $54.9 million on a total system basis to date as a result of the four hurricanes and that those expenditures will be carried by PEF until its next base rate adjustment.

Based on our preceding and subsequent findings, the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to true-up is $271,476,895 ($285,108,136 system). The following table shows our calculation:

PEF Estimated 2004 Storm Damage Expenses		$366,337,926
Less: Amount of Capital Expenditures Deferred to Next Rate Case		54,926,450
Total PEF System O&M Expenses		$311,411,476
Less: Commission-Approved Adjustments		
Non-Management Payroll Expense.....	($5,140,639)	
Managerial Payroll Expense.....	(6,197,565)	
Tree Trimming Expenses.....	(1,400,000)	
Vehicle Expenses.....	(3,043,014)	
Call Center Costs.....	(625,852)	
Advertising & Public Relations Expense..	(1,496,270)	
Costs of Removal.....	(8,400,000)	(26,303,340)
Total Comm. System O&M Expenses Before Netting Reserve Balance		$285,108,136
Retail Jurisdictional Separation Factor		0.952189225
Total Comm. Retail O&M Expenses Before Netting Reserve Balance		$271,476,895

With all of the capital and O&M expense adjustments discussed above, we note that PEF's 2004 achieved ROE would be reduced from 13.48% to 12.66%, which represents a reduction of 82 basis points.

APPROPRIATE AMOUNT OF STORM-RELATED COSTS TO BE RECOVERED FROM CUSTOMERS

As discussed above, we have determined that the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to

true-up. We must also determine what the appropriate amount is of storm-related costs to be recovered from PEF's customers.

After the storm damage reserve is applied, PEF witness Portuondo testified that the remaining amount of storm-related O&M expense is $264.5 million, or $251,850,486 million allocated to the Company's retail jurisdiction that PEF seeks to recover. Assuming recovery in equal amounts over two years with interest and a commencement date of January 1, 2005, Mr. Portuondo recommended recovery of $132.2 million in 2005 and $128 million in 2006. He stated that the true-up of estimated costs to actual costs, with interest at the commercial paper rate would be applied to any over or under-recoveries. Based on our findings and the most recent commercial paper rate, the appropriate amount of storm-related costs to be recovered from the customers is $231,613,565. The following table shows our calculation:

Total Comm.System O&M Expenses Before Netting Reserve Balance	$285,108,136
Less: 12/31/04 Reserve Balance	(46,915,219)
Total System O&M Expenses Net of Reserve Balance per Comm.	$238,192,917
Retail Jurisdictional Separation Factor	0.952189225
Comm. Amount to Recover from Customers Before Interest & Taxes	$226,804,729
Plus: Interest Per Commission	4,867,856
Comm. Amount to Recover from Customers with only Interest	$231,672,585
Revenue Tax Multiplier	1.00072
Total Commission-Approved Amount to Recover from Customers	$231,839,389

ACCOUNTING TREATMENT OF UNAMORTIZED STORM-COST BALANCE

Although not specifically addressed by the witnesses at the hearing or in the parties' briefs, we have also determined the appropriate account in which to record the approved deferred storm-related costs during the period that they are being amortized. Once an amount is approved for recovery and amortization, it meets the definition of a regulatory asset. In this instance, the appropriate account is Account 182.1, Extraordinary Property Losses. This account was specifically created to include extraordinary losses, such as unforeseen damages to property, which are not covered by insurance or other provisions. This would include the amount of the storm-related costs, approved herein for future recovery, that exceeded the balance in the storm damage reserve. In order to assist in the tracking and review of the amounts included in this account and their subsequent amortization, a separate subaccount of Account 182.1 shall be established to record these transactions. The appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery is to record the costs as a regulatory asset in a subaccount of Account 182.1, Extraordinary Property Losses. We note

that this would be the "normal" accounting treatment for Commission-approved deferral and future recovery of extraordinary property losses.

CALCULATION OF INTEREST ON STORM-RELATED COSTS

All parties that have taken a position on this issue agree that, to the extent recovery of storm damage restoration costs is granted through a storm cost recovery clause or surcharge, PEF should be allowed to charge interest at the applicable 30-day commercial paper rate. (Category One Stipulation No. 3) The remaining determination for this issue is the appropriate balance on which the commercial paper rate should be applied.

Consistent with Rule 25-6.0143(4)(b), Florida Administrative Code, PEF booked storm damage restoration costs to its Storm Damage Reserve for regulatory purposes. For tax purposes, however, PEF expensed the storm damage restoration expenses in 2004. This treatment resulted in the Company booking additional accumulated deferred taxes of approximately $135.8 million. While this is a temporary timing difference that will be reversed as the storm damage surcharge is collected, in the meantime the deferred taxes are a source of cost-free capital to the Company.

In its petition, PEF dealt with the storm-related deferred taxes by including a certain amount in its capital structure. FIPUG witness Brown testified that the Company should recognize the storm-related deferred taxes in the calculation of interest carrying charge on the unamortized balance of any storm-related costs the Company is permitted to recover from ratepayers. Specifically, she testified that the Company should only be allowed to charge interest on the net-of-tax balance of the storm damage account.

All things being equal, including the storm-related deferred taxes in the capital structure as zero-cost capital would result in a greater benefit to ratepayers than using the deferred taxes as an offset to the unamortized storm damage balance in the interest calculation. However, in the instant case, all things are not equal. The ratepayers only benefit from the inclusion of storm-related deferred taxes in the capital structure if rates are reset when the deferred taxes are present. Because the Company is using 13-month average balances in a December 31, 2006 projected test year, by operation of math, over half of the storm-related deferred taxes will have turned around and therefore will not be recognized in the 2005 rate case. To capture the value of the storm-related deferred taxes for the benefit of the ratepayers, we are approving a compromise approach.

Because the Company's petition is predicated on including a certain portion of storm-related deferred taxes in the capital structure, we are leaving this amount intact and afford it the treatment it would ordinarily receive in the rate case. However, for the remaining portion of storm-related deferred taxes that, by operation of math, are not included in the capital structure, we make use of the information from Exhibits 25 and 49 provided by PEF witness Portuondo and Exhibit 39 provided by FIPUG witness Brown to determine the net-of-tax balance for purposes of calculating the interest carrying charge. Specifically, interest shall be calculated on the net-of-tax balance for the period July 2005 through June 2006. Interest will be calculated on

the remaining balance, without any adjustment for deferred taxes, for the period July 2006 through June 2007. This adjustment reduces the interest carrying charge on the unamortized balance of storm-related costs by approximately $2 million. In this manner, we can capture the value of that portion of the storm-related deferred taxes for the benefit of PEF's ratepayers that would have otherwise gone unrecognized.

APPROVAL OF TEMPORARY SURCHARGE

As discussed below, we find that the storm costs approved for recovery shall be treated as a temporary surcharge, rather than a cost recovery clause. While the impact on customers' bills is the same under either mechanism, we have concerns about approving a clause to recover extraordinary costs, particularly on a retroactive basis.

Parties' Arguments

PEF's petition asked for a two-year limited Storm Cost Recovery Clause. The arguments for a cost recovery clause are based on the limited nature of the requested recovery, the volatility and unpredictability of storm related costs, and the desirability of matching recovery with cost incurrence. Further, PEF notes that we stated that we would consider a cost recovery clause in the orders establishing the self-insurance programs. PEF further suggests that since the costs did not occur in a test year, recovery would not be allowed in its pending rate case. PEF also suggests that if the costs "have to be recovered from the ratepayers," they necessarily must be recovered outside of base rates, and revenues and a cost recovery clause mechanism is the only way to do that in a timely manner. As further evidence of appropriateness of the clause recovery mechanism for storm damage costs, PEF cites the clause recovery of security expenditures incurred in response to the September 11, 2001 terrorist attacks, which were traditionally treated as base rate costs. Like the security costs, PEF agrees with our logic that it is important to align the recovery of the costs with the cost incurrence so that customers who benefited from the expenditures paid for them.

OPC, FIPUG, and FRF maintain that PEF's request for a cost recovery clause is an attempt to circumvent the Stipulation approved by Order No. PSC-02-0655-AS-EI, which prohibits PEF from raising its base rates prior to January 1, 2006, absent a Return on Equity (ROE) threshold. The intervenors argue that the Stipulation gave the utility an unlimited upside on earnings in exchange for foregoing base rate increases, unless PEF's ROE fell below 10%. OPC and SMW also note that there was no cost recovery clause in place at the time the costs were incurred and that the only provision for storm cost treatment was through base rates. It would therefore be inappropriate to use a clause which did not exist at the time costs were incurred to recover the costs. FRF argues that storm related costs have traditionally been recovered through base rates and that PEF's petition for relief could be considered a request for base rate relief envisioned under the Stipulation, assuming PEF's ROE fell below 10% as a result of the costs. FIPUG maintains that Commission orders clearly state that storm costs are part of base rates, citing the FPL order wherein the Commission specifically declined to implement a cost recovery clause like the one proposed by PEF in this case.

Decision to Approve Temporary Surcharge

We recognize the similarities in customer impact between styling the recovery mechanism as a "temporary surcharge" or a "cost recovery clause." However, there are some fundamental differences between the two concepts which must be recognized, and which supports that a temporary surcharge is a more appropriate mechanism.

PEF is asking for recovery for pre-determined costs which occurred prior to the adoption of the clause. Although cost recovery clauses have true-up mechanisms, they are essentially forward-looking. Rates are based on projected costs and trued-up to actual. When the current clauses were adopted, our orders specifically stated that they would be applicable only prospectively, to costs incurred after the adoption of the clause. Order No. 9974, issued April 24, 1981, in Docket No. 810050-PU, In re: Conservation Cost recovery clause, notes that Order No. 9273, issued March 7, 1980, established the energy cost conservation clause for conservation costs expected to be incurred starting January 1, 1981. Similarly, the Oil Back-out Clause was approved in Order 11210, issued September 29, 1982, in Docket No. 820001-EU, In re: Investigation of fuel cost recovery clauses of electric utilities, for recovery of costs of oil back-out projects for the period October 1, 1982 through March 31, 1983. On February 24, 1992, we issued Order 25773, in Docket No. 910794-EI, In re: Generic Investigation of the proper recovery of purchased power capacity cost by investor-owned electric utilities, establishing the Capacity Cost Recovery Clause for all utilities for costs beginning October 1992. We were even more specific in Order No. PSC-94-0044-FOF-EI, approving an environmental cost recovery clause for Gulf Power Company. In that order we said:

> One issue before us is whether it is appropriate to recover costs through the Environmental Cost Recovery Clause (ECRC) that were incurred before the effective date of the ECRC legislation. We shall only approve recovery of expenses incurred after April 13, 1993 for Gulf Power Company. Statutes are applied on a prospective basis unless there is a specific exception within the language of the statute. Thus, costs incurred prior to the effective date of the statute would not be eligible for recovery through the clause. The allowance of expenses incurred prior to the establishment of an environmental cost recovery clause is inappropriate. (Order p. 1-2)

We agree with PEF that cost recovery clauses were designed to recover costs which are volatile and unpredictable. We also agree that all four current clauses address costs that are unpredictable, volatile and irregular, due to forces outside the utility's control. The original purpose of recovery clauses was to address on-going costs which could fluctuate between rate cases and unduly penalize either the utility or customers, if such costs were included in base rates. PEF in its petition asked for a time-limited "clause," which is contrary to the concept and operation of existing clauses that address recurring costs. In addition, we agree with OPC that a true clause is not limited to a specific event. The two year limitation proposed by PEF looks more like a temporary surcharge than a recovery clause because it does not contemplate the need for such a clause on an on-going basis.

We are concerned with the precedent of establishing a specific clause for any extraordinary expense a utility might incur between rate cases. Although we have decided to include security costs in the fuel cost recovery factor, that decision was based on an immediate need to protect the health, safety and welfare of the utility and its customers, and there was a basis for believing the costs would be recurring on some level. Order No. PSC-01-2516-FOF-EI, issued December 26, 2001, in Docket No. 010001-EI, In re: Fuel and purchased power cost recovery clause and generating performance incentive factor, states:

> We believe that approving recovery of this incremental power plant security cost through the fuel clause sends an appropriate message to Florida's investor-owned electric utilities that we encourage them to protect their generation assets in extraordinary, emergency conditions as currently exist. (Order p. 4)

That Order also notes that to date, FPL was the only utility to request such recovery and that as more was known about the security costs, other recovery mechanisms might be used.

We are also concerned that using a cost recovery clause to recover a single extraordinary cost is inconsistent with the traditional application of such clauses and could create a troublesome precedent for recovering a single expense without consideration of a company's total operation. This idea of a limited proceeding has rarely been used in the electric industry for that very reason. As some costs go up, some go down, and absent extraordinary circumstances, all balancing impacts should be considered in setting rates. The fact that the storm damage reserve has been sufficient for 12 years would indicate that it is an appropriate mechanism for normal, year-to-year storm expenses. Under the previous Commission orders cited, utilities maintain the right to ask for assistance should the storm damage reserve be insufficient, as in 2004, but that ability does not translate into the need for a cost recovery clause.

If at some point in the future we wish to consider the establishment of a storm cost recovery clause for prospective expenses, in addition to or in place of the self-insurance mechanism, that is our prerogative. However, since no such clause existed prior to the incurrence of the costs to be recovered, the requested recovery period is finite and limited in nature, and such costs are not ongoing and are currently treated in base rates, we find that it is reasonable to approve a temporary surcharge mechanism for storm cost recovery instead of a recovery clause mechanism.

As discussed subsequently, the parties have stipulated that any costs approved for recovery shall be collected over a maximum period of two years. Further, the parties have stipulated that any approved mechanism be effective thirty days following our vote, and that recovery under the mechanism will begin with the first billing cycle of the following month. With the approval of these stipulations, the initial storm cost recovery factors shall be applied to PEF's cycle 1 billings beginning August 2005. Recovery will continue until the last cycle of July 2007. The parties have stipulated to the method to be used to allocate costs to the rate classes.

PEF's storm cost recovery factors shall be modified as described in the testimony of PEF witness Portuondo. PEF shall immediately file tariffs containing initial surcharge factors by rate class to be effective for cycle 1 meter readings for August 2005 and ending with the last cycle for December 2005. In conjunction with the adjustment clause filings for calendar year 2006, PEF shall file revised factors to be in effect for the period January through December of 2006. In conjunction with the adjustment clause filings for calendar year 2007, PEF shall file revised factors that will be in effect for the period January through July of 2007. Any over- or under-recovery remaining at the end of the period shall be refunded or recovered through the fuel adjustment clause. This methodology will insure the timely and accurate recovery of Commission-approved storm-related costs from PEF's customers.

As is true in any case, we maintain our authority to consider all matters relevant and germane to setting rates on a going-forward basis. If deemed appropriate, this could include a modification to the method for recovery of all or a portion of the storm restoration costs which are approved in this docket, in a subsequent rate, securitization, or other appropriate proceeding.

RATE DESIGN

Also at issue in this proceeding is the manner in which storm related costs are collected from the rate classes, which is commonly referred to as rate design. We do not address herein the manner in which costs are allocated to the rate classes, because the allocation method to be used was the subject of approved Category Two Stipulation, No. 1. PEF proposed a rate design that recovers storm costs on a per-kilowatt hour, or energy basis, from all of the rate classes. As stated in the rebuttal testimony of PEF witness Portuondo, this is the rate design that is used for all of PEF's existing recovery clauses.

In her testimony, FIPUG witness Brown advocates a rate design that would recover costs from demand-billed rate classes on a per-kilowatt basis, because most of the costs that PEF is seeking to recover are allocated to the rate classes on a demand basis. Demand-billed rate classes are those classes that bill customers based on both their energy usage, which is measured in kilowatt hours (kWh), and their maximum demand for the month, which is measured in kilowatts (kW). For PEF, these rate classes include the General Service – Demand (GSD), Curtailable (CS), and Interruptible (IS) rate schedules.

In her testimony, witness Brown develops per kW demand charges based on PEF's requested recovery and allocation of costs. However, as pointed out in the rebuttal testimony of PEF witness Portuondo, the charges do not appear to be correct because the rates are higher for transmission level metered customers than for primary and secondary distribution metered customers. In fact, higher level voltage customers should pay lower rates than lower voltage customers.

For the sake of simplicity in applying and calculating rates, we find that the per kW hour rate design proposed by PEF is adequate, and is approved. We have approved the same rate design in the capacity, environmental, and conservation cost recovery clauses, in which a substantial portion of the costs are allocated on a demand basis.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the stipulations proposed at the March 30, 2005 hearing are approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that Progress Energy Florida, Inc.'s Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc. is hereby denied. It is further

ORDERED that Progress Energy Florida, Inc., shall adjust future call center activity expenses charged to the storm reserve by the incremental difference of call load experience during and immediately after hurricanes with the actual prior 3-year average call load during the same time period involved. It is further

ORDERED that Progress Energy Florida, Inc., shall exclude future budgeted advertising and public relations expense from its storm damage reserve. It is further

ORDERED that based on the findings made herein, the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to true-up is $271,476,895 ($285,108,136 system). It is further

ORDERED that the Stipulation and Settlement, as approved in Order No. PSC-02-0655-AS-EI, shall not affect the amount or timing of recovery of incremental, prudently-incurred storm-related costs. It is further

ORDERED that Progress Energy Florida, Inc., shall be allowed to recover all reasonable and prudently incurred storm damage costs identified and approved herein. It is further

ORDERED that, based on the findings herein and the most recent commercial paper rate, the appropriate amount of storm-related costs to be recovered from the customers is $231,839,389. It is further

ORDERED that the appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery is to record the costs as a regulatory asset in a subaccount of Account 182.1, Extraordinary Property Losses. It is further

ORDERED that Progress Energy Florida, Inc., shall be allowed to charge interest at the applicable 30-day commercial paper rate on the unamortized balance of storm damage restoration costs permitted to be recovered from ratepayers. In addition, an adjustment shall be made in the calculation of interest to recognize the storm-related deferred taxes not included in the Company's upcoming rate case. It is further

ORDERED that a temporary surcharge is the appropriate mechanism for recovery of approved costs. It is further

ORDERED that Progress Energy Florida, Inc., shall immediately file tariffs containing initial surcharge factors by rate class to be effective for cycle 1 meter readings for August 2005 and ending with the last cycle for December 2005. In conjunction with the adjustment clause filings for calendar year 2006, PEF shall file revised factors to be in effect for the period January through December of 2006. In conjunction with the adjustment clause filings for calendar year 2007, PEF shall file revised factors that will be in effect for the period January through July of 2007. The surcharge factors shall be derived using updated kilowatt hour sales forecasts consistent with the three recovery periods, and shall reflect the storm-related costs, including any interest, approved herein for recovery. The two filings following the initial filing shall incorporate a true-up of estimates of costs and sales to actual costs and sales. Any over- or under-recovery remaining at the end of the period shall be refunded or recovered through the fuel adjustment clause. It is further

ORDERED that a per-kilowatt rate design shall be used by Progress Energy Florida, Inc., to recover storm-related costs from all rate classes. It is further

ORDERED that neither Progress Energy Florida, Inc.'s Study nor Order No. PSC-94-0852-FOF-EI are determinative as to this Commission's findings with respect to the costs to be appropriately charged to PEF's storm damage reserve. It is further

ORDERED that this docket shall remain open to address the true-up of the actual storm restoration costs. The docket should be closed administratively once staff has verified that the true-up is complete.

By ORDER of the Florida Public Service Commission this 14th day of July, 2005.

/s/ Blanca S. Bayó
BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

This is a facsimile copy. Go to the Commission's Web site, http://www.floridapsc.com or fax a request to 1-850-413-7118, for a copy of the order with signature.

(SEAL)

JSB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

COMMISSIONERS:
BRAULIO L. BAEZ, CHAIRMAN
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
LISA POLAK EDGAR

STATE OF FLORIDA

DIVISION OF THE COMMISSION
CLERK AND ADMINISTRATIVE
SERVICES
CAPITAL CIRCLE OFFICE CENTER
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FL 32399-0850

Public Service Commission

August 12, 2005

Thomas D. Hall, Clerk
Supreme Court of Florida
Supreme Court Building
Tallahassee, Florida 32301

Re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc. (Docket No. 041272-EI)

Dear Mr. Hall:

Enclosed is a certified copy of a Notice of Administrative Appeal, filed in this office on August 12, 2005, on behalf of The Florida Retail Federation. Also enclosed is a copy of Order No. PSC-05-0748-FOF-EI, the order on appeal.

It is our understanding that the index of record is due to be served on the parties to this proceeding on or before October 1, 2005.

Sincerely,

Marcia Sharma

Marcia Sharma,
Assistant Director

KF/mhl
Enclosure

cc: Robert Scheffel Wright, Esquire
John T. Lavia, III, Esquire
David Smith, Esquire
parties of record

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.	DOCKET NO. 041272-EI FILED: AUGUST 12, 2005

NOTICE OF ADMINISTRATIVE APPEAL

NOTICE IS HEREBY GIVEN that The Florida Retail Federation, Appellant, appeals to the Florida Supreme Court Order No. PSC-05-0748-FOF-EI of the Florida Public Service Commission, rendered on July 14, 2005. Pursuant to Florida Rule of Appellate Procedure 9.110(d), a conformed copy of the order appealed from is attached hereto. The nature of the order is a final order of the Florida Public Service Commission declining to establish a storm cost recovery clause and approving a temporary base rate surcharge for 2004 storm cost recovery for Progress Energy Florida, Inc.

LANDERS & PARSONS

CMP _____
COM _____
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A TRUE COPY
ATTEST: Marcia Sharma
ASSISTANT DIRECTOR, DIVISION OF COMMISSION CLERK AND ADMINISTRATIVE SERVICES

Robert Scheffel Wright
Florida Bar No. 966721
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FAX: 850/224-5595

Attorneys for The Florida Retail Federation

CERTIFICATE OF SERVICE
DOCKET NO. 041272-EI

I HEREBY CERTIFY that an original and two true and correct copies of the foregoing were furnished by hand-delivery to the Commission Clerk, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399; and that an original of the foregoing was furnished by hand-delivery to the Clerk's Office, Florida Supreme Court, 500 South Duval Street, Tallahassee, Florida 32399-1927; and that a true and correct copy of the foregoing was furnished by hand-delivery (*) or U.S. Mail on this 12th day of August, 2005, to the following:

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BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.	DOCKET NO. 041272-EI ORDER NO. PSC-05-0748-FOF-EI ISSUED: July 14, 2005

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
LISA POLAK EDGAR

APPEARANCES

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A TRUE COPY
ATTEST Blanca S. Bayó
DIRECTOR, DIVISION OF
COMMISSION CLERK AND
ADMINISTRATIVE SERVICES

FINAL ORDER DECLINING TO ESTABLISH A STORM COST RECOVERY CLAUSE, AND APPROVING TEMPORARY SURCHARGE FOR 2004 STORM COST RECOVERY

BY THE COMMISSION:

BACKGROUND

This docket was opened on November 2, 2004, when Progress Energy Florida, Inc. ("PEF" or "Company") filed a Petition for implementation of a Storm Cost Recovery Clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan (Petition). PEF proposed that the requested clause would provide for the recovery of approximately $251.9 million plus interest over two years.

On March 15 through 17, 2005, we held customer service hearings in Ocala, Apopka, Bartow, St. Petersburg, and Clearwater. We also held a customer service hearing on the first day of our technical hearing in Tallahassee. A total of 49 individuals spoke at these service hearings for which most represented city/county governments (i.e. mayors, commissioners, school superintendents, emergency management officials, etc.), local civic associations, various local chamber of commerce representatives, a water and wastewater utility representative, and representatives of other privately-owned companies. For the most part, these individuals were highly complimentary towards PEF's hurricane restoration efforts.

We held an administrative hearing on March 30, 31, and April 1, 2005. The Office of Public Counsel (OPC), Florida Industrial Power Users Group (FIPUG), American Association of Retired Persons (AARP), Buddy L. Hansen and Sugarmill Woods Civic Association, Inc. (SMW), and Florida Retail Federation (FRF) intervened and participated in the proceeding.

As discussed in greater detail below, we are denying PEF's request to implement a storm cost recovery clause; rather, the storm costs approved for recovery shall be treated as a temporary surcharge. We have made a number of adjustments to the costs for which PEF is seeking recovery. In large part, these adjustments limit recovery to those incremental costs, reasonably and prudently incurred during PEF's 2004 hurricane restoration efforts, which were incurred over and above PEF's budgeted operation and maintenance (O&M) expenses. Based upon our findings, the appropriate amount of storm-related costs to be recovered from the customers is $231,839,389.

We have jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

APPROVED STIPULATIONS

At the hearing, we found that the stipulations reached by the parties and supported by staff on certain issues were reasonable. We hereby accept the stipulated matters as set forth below.

Category One Stipulations

Category One Stipulations are those for which PEF, FIPUG, OPC, AARP, SMW, FRF, and our staff agreed:

1. With respect to replacements of plant items associated with 2004 post-storm repair and restoration activities, the parties stipulate and agree that PEF shall book to plant in service the normal cost of new plant additions under normal operating conditions, and shall book to the storm reserve (as extraordinary O&M) only the costs of new plant additions that exceed those normal amounts. PEF stipulates and agrees to verify that it has implemented this methodology and to provide final values for the portions of costs associated with new plant additions that it has booked to plant in-service and to the storm damage reserve, respectively, after it has completed the booking of relevant costs. PEF's current estimate of costs that it will book to plant in service using this methodology is approximately $47 million dollars.

   This partial stipulation addresses only the appropriate accounting methodology to be employed for the accounting of costs associated with plant replacements, and does not prevent any party from challenging the reasonableness or prudence of any individual cost item. Further, the partial stipulation does not address the aspects of Issue 12 that treat retirements and cost of removal expense, which remain at issue.

2. The parties stipulate and agree that PEF shall charge to the storm damage reserve only the costs of those materials and supplies that PEF actually used during the 2004 post-storm repair and restoration activities, thereby excluding from the storm damage reserve any costs associated with replenishing supplies and inventories. PEF stipulates and agrees that it will verify that it has implemented this approach in a report submitted in this docket after it has completed the process of booking all storm-related costs.

   This stipulation addresses only the appropriate accounting methodology to be applied to costs of materials and supplies, and does not prevent any party from challenging the reasonableness or prudence of any individual cost.

3. The parties stipulate and agree as follows: (1) PEF shall accrue and collect interest on the amount of storm costs that the Commission authorizes PEF to collect from customers in this proceeding. (2) No interest shall accrue prior to the date on which the Commission's vote in this docket is rendered. (3) No interest shall accrue on any amount in excess of that which the Commission authorizes PEF to collect from customers. (4) If PEF collects from customers an amount greater than that authorized by the Commission, it shall refund the differential with interest. (5) PEF shall calculate interest by applying the 30-day commercial paper rate in the following manner: Using a 30-day Dealer Commercial Paper rate, as published in the Wall Street Journal, which is high-grade unsecured notes sold through dealers by major corporations.

4. The parties stipulate and agree that PEF shall collect the amount of storm-related costs that the Commission authorizes it to recover from customers over a maximum period of 2 years.

5. The parties stipulate and agree that the mechanism that the Commission approves for recovery of storm-related costs shall become effective 30 days following the date of the Commission's vote in this docket. Recovery shall begin with the first billing cycle of the following month.

6. The parties stipulate and agree that PEF shall file tariffs reflecting the establishment of any Commission-approved mechanism for the recovery of storm-related costs from the ratepayers.

Category Two Stipulations

Category Two Stipulations are those for which PEF, FIPUG, FRF, and our staff agreed, and for which OPC, AARP, and SMW took no position.

1. The methodology for allocation of storm recovery costs should be that which is proposed in PEF's petition.

EFFECT OF ORDER NO. PSC-02-0655-AS-EI

Background

We approved the Settlement of PEF's last rate case by Order No. PSC-02-0655-AS-EI, issued May 14, 2002, in Docket No. 000824-EI, In re: Review of Florida Power Corporation's earnings, including effects of proposed acquisition of Florida Power Corporation by Carolina Power & Light. Among other things, the Stipulation and Settlement agreement (Stipulation or Settlement) provided that PEF (formerly FPC) will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates, except as provided for in Section 9 of the Settlement regarding PEF's Hines Unit 2. The Settlement further provided that PEF will not petition for an increase in its base rates and charges, including interim rate increases, that would take effect prior to December 31, 2005. The Settlement does not explicitly address hurricane related costs. The pertinent sections are as follows:

> 4. No Stipulating Party will request, support, or seek to impose a change in the application of any provision hereof. The Stipulating Parties other than FPC will neither seek nor support any additional reduction in FPC's base rates and charges, including interim rate decreases, that would take effect prior to December 31, 2005 unless such reduction is initiated by FPC. FPC will not petition for an increase in its base rates and charges, including interim rate increases, that would take effect prior to December 31, 2005, except as provided in Section 7. ...
>
> 7. If FPC's retail base rate earnings fall below a 10% ROE as reported on an FPSC adjusted or pro-forma basis on an FPC monthly earnings surveillance report

> during the term of this Stipulation and Settlement, FPC may petition the Commission to amend its base rates notwithstanding the provisions of Section 4. The other Stipulating Parties are not precluded from participating in such a proceeding. This Stipulation and Settlement shall terminate upon the effective date of any Final Order issued in such proceeding that changes FPC's base rates.
> ...
>
> 12. ... FPC will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates, except as provided in Section 9.

Argument of the Parties

At issue is whether the Stipulation, approved by our Order No. PSC-02-0655-AS-EI, affects the amount or timing of storm-related costs that PEF can collect from customers pursuant to its petition in this docket; and, if so, what the impact on the amount or timing is. PEF contends that the Settlement has no bearing on PEF's petition to establish a storm recovery clause. The intervenors assert that the request to establish a storm recovery clause is an attempt to circumvent the terms of the Settlement, and that PEF should realize no recovery of its 2004 storm costs from customers until its return on equity has fallen to 10%.

In support of its position, PEF argues that the Settlement provides that PEF will not petition for an increase in its base rates and charges that would take effect prior to December 31, 2005; further, PEF is allowed to petition this Commission to amend its base rates if its retail base earnings fall below a 10% ROE. PEF contends that its petition to establish a storm cost recovery clause does not involve an increase in base rates and charges, and that the storm-related costs that PEF seeks to recover under a Storm Cost Recovery Clause were not and cannot be included in a base rate proceeding. PEF contends that the costs of severe storms like the 2004 hurricanes are too volatile, irregular in their occurrence, and unpredictable to be addressed in base rates. Rather, base rates are set to defray other, normal recurring costs of running the utility. PEF contends that the intervenors' witnesses all agreed that the 2004 hurricanes and the costs incurred by PEF were unprecedented in nature and that the hurricane costs were volatile and unpredictable, and that PEF's base rates did not include the 2004 hurricane costs. PEF argues that the Settlement, which settled a base rate proceeding, is inapplicable to the Company's Petition for recovery of its 2004 hurricane costs. PEF contends that is untenable and unfair for intervenors to suggest that PEF must use its base rate revenues to absorb all or part of the costs of volatile, non-recurring expenses that base rates were never intended to recover in the first place.

PEF also contends that we should reject the intervenors' arguments that the Company should share the 2004 hurricane-related costs with its customers by applying its earnings toward those costs, suggesting the 10% ROE figure in the Company's Stipulation is, in any event, a fair and reasonable way to allocate the Company's storm-related costs. PEF believes that this construction of the Settlement is inaccurate. PEF argues that Rule 25-6.0143(4)(c), Florida Administrative Code, which governs the Storm Damage Reserve, requires that "each and every loss or cost which is covered by the account shall be charged to that account and shall not be

charged directly to expenses. Charges shall be made to accumulated provision accounts regardless of the balance in those accounts." PEF asserts that it would thus be precluded from expensing storm-related costs in 2004 to the point that the Company's return is limited to a 10% ROE without obtaining a waiver of the Rule by the Commission. PEF contends that in urging us to force PEF to divert its base rates and revenues to cover these expenses, the Intervenors are seeking an additional reduction in PEF's base rates in violation of Paragraph 4 of the Settlement. Further, PEF asserts that it is unfair and inconsistent with sound regulatory policy to reduce PEF's earnings to the "bottom line" when "the evidence demonstrates that PEF's performance during the 2004 hurricanes was everything the Commission and customers should want a utility to do and more."

In support of its position, OPC argues that PEF's request for a storm cost recovery clause is an attempt by PEF to evade its obligations under the Settlement. PEF notes that we denied a request by Florida Power & Light Company to establish a similar clause in 1993, by Order No. PSC-93-0918-FOF-EI, issued June 17, 1993, in Docket No. 930405-EI, In re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase annual contribution to storm and property insurance reserve fund by Florida Power & Light Company. OPC contends that PEF's request in the instant docket should likewise be denied as an unsuitable mechanism, stating that PEF's attempt to create a clause now can not alter the fact that, at the time of the Settlement, the parties did not provide for storm cost treatment in any way other than through base rates. OPC supports its argument that PEF's request is not a true clause in that a legitimate cost recovery clause is perpetual in nature, and PEF's proposal would terminate after two years. Further, a true clause is not confined to the cost of a specific event, and PEF's proposal is to collect $252 million, which it quantifies as the cost of specific storm events, over a specific time frame.

OPC also contends that PEF has incorrectly asserted that the 10% trigger applies only to an unanticipated reduction in revenues, as opposed to an increase in costs, noting that, during the hearing, PEF witness Portuondo asserted that the parties to the Settlement intended the 10% return on equity threshold to apply only in the event PEF miscalculated revenues. OPC states that Mr. Portuondo admitted during cross-examination that the Settlement does not contain any distinction between reductions in earnings caused by increased costs as opposed to reductions in earnings caused by lower revenues. OPC contends that the language of the Settlement does not imply or even remotely suggest the existence of such a distinction, and that PEF instead has come up with an after-the-fact interpretation that impermissibly opposes the clear language of the Settlement.

In summary, OPC posits that PEF can neither circumvent the 10% ROE provision of the Settlement by requesting a cost recovery clause, nor rewrite the Settlement's terms by asserting that only reduced revenues can trigger the 10% provision. OPC contends that PEF must be held to the clear, plain confines of the Settlement; and that circumstances have not changed in a way that would present a basis in which we could modify PEF's obligation.

In support of its position, FIPUG also asserts that the proposed creation of a storm cost recovery clause "is nothing more than an attempt to do an end run around [PEF's] Stipulation and Settlement and to do it in a manner that is contrary to past Commission practice." FIPUG

alleges that PEF has rejected the historic base rate approach to recovering storm costs because it would otherwise lose excessive 2004 profits, because PEF agreed in the Settlement that it would not seek a base rate increase unless the after-tax return on equity falls below 10%.

FIPUG contends that our orders and rule on the storm reserve clearly demonstrate that storm damage expenses are part of base rates. For instance, in Order No. PSC-03-0918-FOF-EI, which established the storm damage reserve for FPL, we acknowledged that hurricane-related expenses were included in base rates and, therefore, declined to create a 100% pass-through mechanism such as the clause PEF proposes in this case. In Order No. PSC-93-1522-FOF-EI, which approved the creation of a storm reserve fund for PEF, we noted that PEF was collecting for transmission and distribution property damage in its base rates. In addition, Rule 25-6.0143, Florida Administrative Code, governs the treatment of storm-related costs, and provides that balances in these storm accounts are to be evaluated at the time of a rate proceeding and adjusted as necessary, while permitting a utility to petition for a change in the provision level and accrual rate outside of a rate proceeding.

FIPUG contends that we have at our disposal several methodologies for dealing with PEF's storm damages that are consistent with the terms of the Settlement. FIPUG recommends that PEF should bear all storm expenses to the point that its earnings fall to a 10% ROE, with the remainder being borne by the ratepayers. In recognition that this is a base rate case, instead of using a cost recovery clause to collect the storm damage costs, we should use a temporary adjustment to base rates by creating a storm damage base rate rider to allow recovery of the ratepayers fair share of the costs over a two year period. FIPUG believes that this approach comports with the action we've taken in the past whereby PEF and Gulf Power Company have applied excess earnings to reduce storm damage expense. In addition, FIPUG also recommends a variation on the risk-sharing approach: for 2004, we should require PEF to book the amount of storm damage expense to bring its after tax return on equity to 10%. In 2005, we should allow that return to increase to the 12.5% return authorized in 1994, with excess earnings applied to reduce the storm damage costs. Then, for 2006, PEF would be allowed to earn the return that we find to be proper in the pending rate case, Docket 050078-EI.

SMW contends that the Settlement prohibits PEF from recovering any storm costs from its customers until its return on equity falls to 10%. SMW believes that not only does the 10% equity return "floor" in the Settlement provide a minimal fair return on equity for use in determining the shareholders' share of costs to be borne, such a 10% equity return is more than fair in the current market. SMW's primary position is that the storm expense incurred by PEF should be amortized over an appropriate time period and that there should be no surcharge to customers. However, SMW contends that if there is a surcharge, then the amount of the recovery should be determined, not based on the amount that PEF spent, but the amount of storm cost recovery expenses that remain after PEF's shareholders absorbed costs sufficient to bring its earnings to the minimum of a fair rate of return on equity, which, pursuant to the Settlement Agreement, is 10%.

FRF contends that the Settlement requires PEF to defray storm-related costs from earnings to the point that its return on equity has fallen to 10%. FRF further asserts that PEF's request to establish a storm cost recovery clause would violate the Settlement, and that PEF

seeks to charge rates that require its captive customers to bear effectively all of the risks and all of costs incurred due to the 2004 storms while preserving for itself a ROE of approximately 13.5%, approximately 350 basis points above the ROE that PEF agreed to in the Settlement and similarly far above any reasonable ROE under current market conditions. FRF contends that we must ensure that PEF's rates, considered in their totality, are fair, just, and reasonable. In this case, FRF believes that this requires that PEF's earnings and its achieved rate of ROE be taken into account and, accordingly, that any storm surcharge we approve should allow PEF to earn a 10% after-tax ROE for 2004 and 2005, as required by the Settlement.

FRF states that storm-related expenses typically are, and have historically been, recovered through changes in base rates, but in this case, such base rate changes are limited due to the Settlement. FRF agrees that PEF has the right to seek base rate relief to get its base rates to a level that would provide PEF with the opportunity to earn a rate of return on equity of 10.0%, consistent with the Settlement. FRF believes that a 10% after-tax ROE is fair to PEF within the terms of the 2002 Stipulation, and it is generous relative to current market conditions.

Order No. PSC-02-0655-AS-EI Does Not Affect Storm Cost Recovery

Over a six week period in 2004, PEF's service area was struck by four hurricanes, during which time PEF experienced over two million cumulative customer outages, and a company-estimated $366 million in storm-related costs. At hearing, all of the intervenors' witnesses agreed that four hurricanes in Florida over one year's time was an unprecedented event. OPC witness Majoros did not dispute that the 2004 hurricane season caused severe damage to the company's transmission and distribution system, and SMW witness Stewart agreed that the storm-related costs that PEF incurred in 2004 as a result of the four hurricanes were also unprecedented. PEF contends that, as even OPC's witness agreed, the job of preparing for, responding to, and recovering from four hurricanes in 2004 was a massive undertaking, requiring thousands of PEF employees and outside workers unfamiliar with PEF's accounting methods focusing all of their efforts on restoring service as quickly and safely as possible.

PEF has a Storm Damage Reserve for O&M expenses associated with storm damage which customers support through base rates; at the end of 2004 the value of the Reserve was $46.9 million. PEF's Storm Damage Reserve was established by Order No. PSC-93-1522-FOF-EI, issued October 15, 1993, in Docket No. 930867-EI, In re: Petition of Florida Power Corporation for authorization to implement a self-insurance program for storm damage to its T&D Lines and to increase annual storm damage expenses. At that time, PEF had been collecting $1 million annually in base rates for transmission and distribution (T&D) property damage, with a company estimate that $3 million would be adequate to begin rebuilding a storm damage reserve, based on the 20-year history of actual storm damage incurred by the Company. The reserve's annual accrual amount was raised to $6 million annually by Order No. PSC-94-0852-FOF-EI, issued July 13, 1994, in Docket Nos. 940621-EI, In re: Investigation into Currently Authorized Return on Equity and Earnings of Florida Power Corporation, and 930867-EI, In re: Petition for Authorization to Implement a Self-Insurance Program for Storm Damage to its Transmission and Distribution (T&D) Lines and to Increase Annual Storm Damage Expense by Florida Power Corporation.

Both FIPUG and SMW's witnesses testified that PEF's base rates are not set to cover the costs of hurricanes like those experienced in 2004. PEF witness Portuondo testified that it would be neither practical nor cost-effective to provide coverage for all storm-related costs the Company might experience. Mr. Portuondo further testified that:

> The Storm Damage Reserve is intended to address the likely level of storm costs that might result from study findings that 53% of the storms simulated a total cost of less than $5 million and the probability of a storm occurrence is only 23.3% a year. The annual accruals to the Reserve were not designed to cover costs of potentially catastrophic hurricane seasons because the Company's studies that provided the basis for these accruals have shown a low probability that the most severe storms or series of storms would severely impact its service territory.... When considering these studies in the early to mid-1990's, it was the Commission's considered judgment to avoid collecting from customers the significant additional reserves that would be needed to cover the costs of catastrophic storms that were unlikely to occur. Instead, the Commission decided to provide utilities the opportunity to seek recovery of the costs associated with catastrophic storms if and when the need might arise. As we are all too aware, the hurricane season of 2004 has presented that need.

We note in particular language in Order No. PSC-93-1522-FOF-EI, in which we stated that:

> [FPC] proposes that, in the event that actual experience from storm damage exceeds the reserve balance at any given point in time, the excess costs should be deferred through the creation of a regulatory asset to be recovered from the customers over a five year period through a mechanism to be determined by this Commission.
>
> This Commission already has a rule in place to govern the use of Account 228.1, Accumulated Provision for Property Insurance. Rule 25-6.0143(4)(b), Florida Administrative Code, provides that, "...each and every loss or cost which is covered by the account shall be charged to that account and shall not be charged directly to expenses. Charges shall be made to accumulated provision accounts regardless of the balance in those accounts."
>
> If FPC experiences significant storm related damage, it can petition for appropriate regulatory action. In the past, this Commission has allowed recovery of prudent expenses and has allowed amortization of storm damage expense. Extraordinary events such as hurricanes have not caused utilities to earn less than a fair rate of return. FPC shall be allowed to defer storm damage loss over the amount in the reserve until we act on any petition filed by the company.
>
> No prior approval will be given for the recovery of costs to repair and restore T&D facilities in excess of the Reserve balance. However, we will expeditiously

> review any petition for deferral, amortization or recovery of prudently incurred costs in excess of the reserve.

Id. at 4-5 (Emphasis added).

The intervenors contend that PEF's request to establish a storm cost recovery clause is inappropriate, and for various reasons, runs contrary to the terms of the Settlement which was approved in Order No. PSC-02-0655-AS-EI. As discussed subsequently, we agree that a storm cost recovery clause is not the most appropriate vehicle to collect the amount of any storm-related costs which we authorize herein for recovery. The Intervenors also contend that PEF can not request recovery of its storm-related costs until such time as its retail base rate earnings fall below a 10% ROE, as provided in Section 7 of the Settlement. As addressed here and subsequently in this Order, we do not agree with this assessment.

Neither PEF nor the intervenors could have reasonably foreseen that the outcome of the 2004 hurricane season, and the damages and costs incurred by the utility, would be on an order of magnitude above anything that PEF, or its customers, had previously experienced. PEF incurred incremental costs which were not budgeted nor accounted for through base rates. Indeed, the record evidence suggests it would have been imprudent to require PEF's customers to fund in advance the substantial additional reserves that would be needed to cover the costs of catastrophic storms, which, statistically speaking, were unlikely to occur. At its current level, PEF's storm reserve will cover only a fraction of the expenses incurred by the company to restore service to its customers and repair its T&D facilities damaged by the hurricanes. By Order No. PSC-93-1522-FOF-EI, we contemplated that relief could be made available for a utility which has experienced such extraordinary expenditures, subject to a review of the prudency of those costs.

The Settlement provides that PEF will not petition for an increase in its base rates and charges during the term of the Settlement, and that PEF will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates. Certainly, the recovery of typical storm damages has historically been addressed through the storm reserve and has been budgeted for and recovered through base rates. However, the magnitude of the damages and costs associated with the 2004 hurricane season were unprecedented and extraordinary in nature. Given this extraordinary nature, we do not believe that the incremental costs associated with the 2004 hurricanes constitute a base rate item, such as would be addressed by the Settlement. Recovery of these incremental, prudently-incurred hurricane costs is distinguishable from the types of increases in base rates that is contemplated by the Settlement. Further, PEF is not seeking recovery for capital items which would be barred by Section 12 of the Settlement. The Settlement neither expressly permits nor expressly prohibits the recovery of these extraordinary costs; rather, the Settlement simply does not address the treatment of costs of this unprecedented nature and magnitude. It would be unfair to read the Settlement as barring the recovery of prudently-incurred, extraordinary restoration costs. These are not typical expenses which have been accounted for in base rates. Therefore, we find that neither the Settlement nor Order No. PSC-02-0655-AS-EI should affect the amount or timing of recovery of incremental storm-related costs.

Even if the Settlement were to be read as addressing the incremental costs at issue in this proceeding, in light of the extraordinary circumstances of the 2004 hurricane season and the extent of storm damages incurred by PEF, we would have the discretion to exercise our authority in the public interest to address the costs which are at issue in this proceeding. We have a longstanding commitment to support and encourage negotiated settlements. Further, the principle of administrative finality assures that there will be a terminal point in proceedings at which the parties and the public may rely on an agency's decision as being final and dispositive of the rights and issues involved therein. See Peoples Gas System, Inc. v. Mason, 187 So. 2d 335 (Fla. 1966) (the inherent authority of the Commission to modify its final orders is a limited one).

However, we are also charged to act in the public interest. Assuming for the sake of argument that PEF's proposal were inconsistent with Order No. PSC-02-0655-AS-EI (approving the Settlement), our obligation to act in the public interest nevertheless authorizes us to revisit that Order, should circumstances require it. For example, in Peoples Gas System, supra, the Florida Supreme Court vacated a Commission Order which modified its previous approval of a territorial service agreement. In support of its decision, the Court stated that the vacated order was not entered on rehearing or reconsideration as permitted by our rules of procedure, it was entered more than four years after the entry of the order which it purported to modify, and it was not based on any change in circumstances or on any demonstrated public need or interest. The Court also recognized, however, the differences between the functions and orders of courts and those of administrative agencies, particularly those regulatory agencies which exercise a continuing supervisory jurisdiction over the persons and activities regulated, and which are usually concerned with deciding issues according to a public interest that often changes with shifting circumstances and passage of time. Id. at 339. The Court noted that pursuant to Sections 366.03, 366.04, 366.05, 366.06, and 366.07, Florida Statutes, the legislature has given this Commission broad powers to regulate the operation of electric utilities. Id. Furthermore:

> Nor can there be any doubt that the Commission may withdraw or modify its approval of a service area agreement, or other order, in proper proceedings initiated by it, a party to the agreement, or even an interested member of the public. However, this power may only be exercised after proper notice and hearing, and upon a specific finding based on adequate proof that such modification or withdrawal of approval is necessary in the public interest because of changed conditions or other circumstances not present in the proceedings which led to the order being modified. This view accords requisite finality to orders of the Commission, while still affording the Commission ample authority to act in the public's interest.

Id. at 339-340.

Even if the Settlement were read as prohibiting the recovery PEF seeks in its petition, the evidence adduced in this case demonstrates that the circumstances surrounding the 2004 hurricane season – and the resulting costs incurred by PEF – were unprecedented, and truly extraordinary in nature. At discussed above, PEF's current storm reserve will cover only a fraction of the expenses incurred by the company to restore service to its customers and repair its

T&D facilities damaged by the hurricanes. By Order No. PSC-93-1522-FOF-EI, we contemplated that relief could be made available for a utility which has experienced such extraordinary expenditures, subject to a review of the prudency of those costs.

Neither PEF nor the intervenors could have reasonably foreseen that the outcome of the 2004 hurricane season, and the extraordinary damages and costs incurred by the utility. The facts in this case demonstrate a profound change in circumstances from those under which the Settlement was originally entered and approved. It would be unfair for the utility to be foreclosed from recovering its prudent restoration costs under these circumstances. Our mandate to act in the public interest requires us to balance the interests of both the utilities we regulate and those of the customers. As noted in Peoples Gas System, we have a continuing supervisory jurisdiction over the persons and activities we regulate, and must decide issues according to a public interest that often changes with shifting circumstances and passage of time. Were a determination to be made that the Settlement addresses the costs at issue in this case, in light of the extraordinary circumstances of the 2004 hurricane season and the extent of storm damages and costs incurred by PEF, we would have the discretion to exercise our authority in the public interest to address the costs which are at issue in this proceeding.

DECLINING TO APPORTION COSTS

The Company has proposed that it be allowed to recover all direct costs associated with its storm damage restoration efforts. The intervenors to this docket recommend that we first require PEF to expense that portion of storm damage restoration costs necessary to take the Company's 2004 earned return on equity (ROE) to 10% before allowing PEF to recover the remaining balance of reasonable and prudently incurred storm-related costs. Based on PEF's December 2004 Earnings Surveillance Report, the Company would have to record approximately $113.2 million in additional expenses to reach an ROE of 10.0%.

As discussed above, we find that the Stipulation approved in Order No. PSC-02-0655-AS-EI should not affect the amount or timing of the storm-related costs that PEF can collect from its ratepayers. We expressly stated in Order No. PSC-93-0918-FOF-EI that a regulated company was free to consider a variety of options in the event it petitions for recovery of prudently incurred costs in excess of its storm damage reserve "depending on what the circumstances are at the time."

The intervenors argue that if the Stipulation does not apply in this case to limit PEF's recovery, we should nevertheless apply by analogy some of the principles underlying that Stipulation. In particular, the intervenors contend that PEF should be allowed to recover storm damage restoration costs only to the extent that such costs, if expensed in 2004, would reduce its 2004 earnings below the 10% threshold contained in Section 7 of the Stipulation. All intervenors agree that the total amount of storm damage restoration costs incurred as a result of the 2004 hurricane season, if expensed in 2004, would take PEF's earned ROE below that 10% threshold, such that partial recovery of those costs should be permitted.

We find that it is not appropriate to apply the 10% ROE threshold in the manner advocated by the intervenors. While Section 7 of the Stipulation specifies that PEF may petition for a rate increase only in the event its base rate earnings fall below a 10% ROE, the Stipulation is silent with respect to what return level the Company may be brought back to as a result of its requested rate relief. Moreover, Section 3 of the Stipulation states that "[e]ffective on the Implementation Date, FPC will no longer have an authorized Return on Equity (ROE) range for the purpose of addressing earnings levels, and the revenue sharing mechanism herein described will be the appropriate and exclusive mechanism to address earnings levels." Because PEF does not have an ROE range during the term of the Stipulation, the Company is arguably within its right to petition for recovery of all reasonable and prudently incurred storm-related costs to maintain the return it was otherwise entitled to earn.

We are not convinced that any sharing is appropriate under the circumstances of this case. Consequently, we find it reasonable that PEF shall be permitted to recover from its ratepayers the full amount of the reasonable and prudently incurred storm damage restoration costs as approved herein, without regard to the effect of that recovery on PEF's return on equity.

However, as the intervenor witnesses in this docket have testified, making the ratepayers responsible for the Company's recovery of all reasonable and prudently incurred storm damage restoration costs insulates investors from this risk. We have recognized that cost recovery clauses, such as the storm cost recovery clause proposed by the Company in this docket, have reduced investor risk.

> Each time we approve a clause for the recovery of utility expenses or capital costs, the overall volatility of the utility's earnings before interest and taxes (EBIT) is reduced. This has the effect of reducing business risk. This reduced business risk should then result in a lower average cost of capital (required rate of return) over the long run. While it can be argued that currently authorized ROEs may not reflect the reduced risk resulting from the guaranteed recovery of prudently incurred environmental costs, ROEs set prospectively should reflect this reduced risk.

Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI, In Re: Petition to Establish an Environmental Cost Recovery Clause Pursuant to Section 366.0825, Florida Statutes, by Gulf Power Company, page 14.

PEF witness Portuondo testified that the Company's petition specifically seeks recovery of storm damage restoration costs through a "Storm Cost Recovery Clause." Absent a similar form of statutory authority as is afforded by Section 366.0825, Florida Statutes, PEF's request for a storm cost recovery clause in the instant docket appears analogous to Gulf Power Company's request for an environmental cost recovery clause. This reduced risk exists whether the recovery mechanism is a cost recovery clause or a surcharge.

The requested treatment for the recovery of storm damage restoration costs appears to be more favorable to PEF than the treatment afforded its affiliated utility, Progress Energy

Carolinas (PEC). Witness Portuondo conceded that the regulatory framework in North and South Carolina did not permit PEC to implement a surcharge for the recovery of storm damage restoration costs associated with Hurricanes Ivan and Isabel and the unnamed ice storms that caused significant damage in its service territory. Instead, PEC was required to amortize these costs. To the extent the Company's request for a storm cost recovery is approved, this treatment sends a signal to investors and the market that even in the face of the extensive damage wrought by the "catastrophic and unprecedented" hurricane season of 2004, we continue to be supportive of the financial integrity of PEF and, by extension, the long-run best interests of its ratepayers.

Consistent with our finding in Order No. PSC-94-0044-FOF-EI and the testimony in the record, to the extent that all prudent and reasonable costs associated with storm damage restoration are borne by the ratepayers irrespective of the Company's earnings, investors are exposed to less risk on a going-forward basis. The fact that ratepayers, not shareholders, bear the risk of storm damage cost recovery shall be taken into account in the determination of the Company's investor-required ROE in its next base rate proceeding.

EFFECT OF PEF'S STUDY AND ORDER NO. PSC-94-0852-FOF-EI

Background

By Order No. PSC-93-1522-FOF-EI, we authorized PEF (formerly FPC) to implement a self insurance approach for the costs of repairing and restoring its transmission and distribution systems in the event of hurricane, storm damage or other natural disaster through annual contributions to its storm reserve. In addition, we required PEF to prepare and submit a study evaluating the amount that should be annually accrued to the reserve. The Order further specified at page 4 that:

> FPC's study shall provide information concerning the treatment of T&D damages under its existing policy, a listing of the type of storm-related expenses FPC intends to draw from the reserve fund, and what type of accounting entries will be made for each item.

Pursuant to Order No. PSC-93-1522-FOF-EI, PEF filed its Study in February 1994. By Order No. PSC-94-0852-FOF-EI, we approved a proposal by PEF wherein it agreed to cap its 1994 earnings at a 12.50% ROE, to apply any overearnings to first accelerate the Sebring going concern value and then increase the storm damage accrual, and to permanently increase its storm damage accrual from $3,000,000 to $6,000,000 annually, effective January 1, 1994. The Order stated at page 2 that:

> The appropriate storm damage accrual level is currently under review in Docket No. 930867-EI. A study has been submitted in that docket and our review of that study indicates that an increase above the current $3,000,000 annual accrual is needed. Accordingly, we find that FPC's proposal to permanently increase its storm damage accrual is reasonable and hereby approve the proposal.

This constitutes the sole reference to the Study in Order No. PSC-94-0852-FOF-EI.

Argument of the Parties

At issue is whether, by Order No. PSC-94-0852-FOF-EI, we approved the methodology proposed in PEF's Study concerning the types of costs to be charged to the storm reserve and, in turn, whether our decisions in this docket are limited to determining whether PEF complied with that methodology. PEF's Study proposed a replacement or actual restoration cost approach to determine the storm-related costs charged to the storm reserve; specifically, that the costs of the actual repair activities and those activities directly associated with storm damage and restoration activities would be charged to the reserve. The intervenors contend that we never approved PEF's methodology, and that the correct accrual method is to charge to the storm reserve only those incremental costs incurred over and above PEF's budgeted O&M.

PEF argues that by Order No. PSC-94-0852-FOF-EI, we approved use of PEF's "replacement cost" methodology recommended in the Study, and that a new standard cannot be applied retroactively. Each of the Intervenors takes the position that the Study and Order No. PSC-94-0852-FOF-EI are not legally dispositive of our decisions in this docket concerning what costs are appropriately charged to the storm reserve.

In support of its position, PEF asserts that, pursuant to the Study, it proposed a self-insurance program for T&D storm damage that replicated the operation of third-party insurance. PEF contends that it replicated its prior, third-party T&D insurance methodology by accounting for all direct costs incurred to prepare for, respond to, and recover from the 2004 hurricanes. PEF further states that when this methodology is applied in the self-insurance program, PEF's customers, rather than the third-party insurance company, are responsible for all direct costs incurred during the 2004 hurricanes.

PEF contends that, by Order No. PSC-94-0852-FOF-EI, we specifically considered how to account for storm-related expenses, and also evaluated, accepted, and approved the Study's accounting for storm-related costs and the accrual to the storm damage reserves. PEF asserts that it has applied the methodology for accounting for storm-related costs set forth in its Study for ten years through nine hurricanes and major storms before the 2004 hurricanes without any objection, that we approved this methodology, and that it represents sound regulatory policy. PEF contends that, based on a review of the Study, we had to be aware of the types of costs that PEF would charge to the storm reserve for collection when we accepted the accrual amount in the Study. PEF argues that at no prior time was any question raised about its accounting for storm-related costs, and that to change its method for doing so now is unfair and improper retroactive ratemaking.

In its brief, PEF cites extensively in support of its position to a similar Study which we required Florida Power & Light Company (FPL) to file, which was to address the appropriate amount to be contributed annually to FPL's storm reserve; and the types of costs that FPL intended to charge to its storm reserve. See Order No. PSC-93-0918-FOF-EI (FPL's study, once filed, was addressed in Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, in Docket

No. 930405-EI.) Both PEF and FPL's studies advocate the actual restoration cost approach, without adjustment, with respect to what costs should be charged to the reserve. PEF contends that in Order No. PSC-95-0264-FOF-EI (and in subsequent Order No. PSC-95-1588-FOF-EI, issued December 27, 1995, in Docket 951167-EI, which increased the storm reserve accrual after Hurricane Andrew), we "found the storm damage study submitted by FPL to be adequate;" thus, a similar finding should be read with respect to PEF's Study.

In support of its position, OPC first contends that a separate basis exists for concluding the Study is not dispositive of the appropriate choice of accounting methodology in this docket. In its study, PEF justified the choice of the "replacement cost" methodology with this statement:

> However, the Company believes its insurance program will continue to be a combination of traditional insurance coverage along with some level of self insurance. Any requirement to use an approach other than replacement cost would place undue administrative burden on the Company which would presumably occur at a time when Company efforts would need to be dedicated to restoration of service and related activities.

OPC contends that the only support provided by PEF lies in the claim that maintaining two sets of books – one for insurance claims and another for regulatory purposes – would amount to an administrative burden. OPC cites PEF witness Portuondo as agreeing with this assessment of the study, which confirms that PEF currently has no commercial insurance on transmission and distribution assets. With respect to those categories of plant, OPC contends that the premise of the Study is wholly invalid.

OPC also criticizes PEF's reliance on FPL's study, stating that, like the PEF Study, the principal justification offered by FPL was to avoid the burdens associated with employing two separate accounting methodologies. OPC contends that FPL purported that its total restoration cost was less expensive than an incremental methodology. However, OPC states that this assertion was entirely dependent on treating lost revenues as a cost. Once lost revenues are removed from the equation, the same exercise shows FPL's method to be more expensive than the incremental approach.

In support of its position, FIPUG agrees that PEF disclosed in its Study the method it would use to book costs to the storm damage reserve. Essentially, at that time PEF said costs attributable to the storm would be booked to the storm reserve. However, FIPUG contends that few would realize that the utility meant to include normal costs as storm expense as well as incremental costs the storm brought on. FIPUG notes that since the Study was filed there has never been a docketed proceeding where the methodology that PEF uses to charge costs to the storm damage reserve has been addressed. FIPUG contends that the Study was conducted with base rates in mind, and that in the instant docket, PEF is asking for a guaranteed cost recovery mechanism that is something entirely different. FIPUG asserts that a base rate proceeding enables us to not only examine the prudency of the costs charged, but it also can eliminate "double dipping," related storm costs to an excess depreciation reserve and implement some form of cost sharing by restricting the utility's return.

PEF Study and Order No. PSC-94-0852-FOF-EI Are Not Determinative

Order No. PSC-94-0852-FOF-EI was not intended to approve the methodology proposed in PEF's Study as the standard by which we must determine which costs are appropriately charged to PEF's storm damage reserve. A review of the Order itself, and a review of our other orders, strongly indicate that we did not intend approval for the purpose asserted by PEF in this proceeding.

PEF's request to self-insure was approved by Order No. PSC-93-1522-FOF-EI. That Order required PEF to file the Study for the express purpose of "evaluating the amount that should be annually accrued to the reserve." Order PSC-94-0852-FOF-EI is titled as follows: "Notice of Proposed Agency Action Order Establishing Earnings Cap for 1994, Accelerating Amortization, and Increasing Storm Damage Reserve." The Order itself does not does not remark upon the prudency of, or in any way reference, the methodology PEF recommends with respect to accruing costs to the storm reserve. The Order does not in fact mention the Study at all, except only to state that "[a] study has been submitted in that docket and our review of that study indicates that an increase above the current $3,000,000 annual accrual is needed." Id. at 2. As its title indicates, the Order addresses PEF's proposal to offset any overearnings for 1994 by accelerating amortization on the Sebring going concern value and then by increasing the storm damage accrual, and increasing the storm reserve accrual to $6,000,000 annually.

PEF's reliance on our treatment of FPL's study is misplaced. There is currently an issue as to the legal effect, if any, of FPL's 1993 storm cost study and Order No. PSC-95-0264-FOF-EI have on the decisions to be made in Docket No. 041291-EI. Without prejudicing the determinations to be made in that docket, we note that while we found the FPL study sufficient to indicate the appropriate annual amount to be contributed to FPL's storm reserve, we did not approve the $7.1 million annual accrual proposed in the study. Order No. PSC-95-0264-FOF-EI at p. 4. Further, with respect to the types of costs to be charged to the storm reserve, we did not expressly approve the methodology proposed in FPL's study and made no finding that the methodology was reasonable or appropriate, or was otherwise approved as the continuing standard for charging costs to the storm damage reserve. Finally, we concluded Order No. PSC-95-0264-FOF-EI by finding only that the Study was "adequate." Id. at 6. Not even this at-best highly generalized finding was made in Order No. PSC-94-0852-FOF-EI regarding PEF's Study.

In this context, the only finding that can reasonably be made from Order No. PSC-94-0852-FOF-EI regarding PEF's study is that it indicated that an increase above the then-current $3,000,000 annual accrual was needed, which is precisely – and exclusively – what that Order has to say about the Study. Construing the Order as proposed by PEF – as approving PEF's proposed methodology – requires going beyond the language and findings in the Order.

This view of Order PSC-94-0852-FOF-EI is consistent with our other orders addressing the same issue with respect to the other three large investor-owned electric utilities in Florida. In

particular, in Order No. PSC-95-0255-FOF-EI ("TECO Order")[1], issued approximately one year after Order No. PSC-94-0852-FOF-EI, we addressed the exact same issue with respect to TECO. In that Order, which was entitled "Notice of Proposed Agency Action Order Approving Storm Damage Study," we specifically found that the replacement cost approach proposed in a study submitted by TECO was "a reasonable methodology for determining the appropriate amounts to be charged to the storm damage reserve." We noted that TECO's proposed approach was consistent with the provisions of TECO's prior insurance coverage. Despite having made a specific finding that TECO's proposed approach was reasonable – a finding notably absent from Order No. PSC-94-0852-FOF-EI – we went on to explain the extent of its authority to review costs charged to TECO's storm damage reserve:

> While we sympathize with Staff's concerns regarding the appropriateness of particular proposed expenses listed by TECO, it is our understanding that this list is merely setting forth examples of expenses that the utility may wish to charge against storm damage reserves. The list is a general guideline of categories to be recovered; it is neither all inclusive or exclusive. Because of the unpredictable nature of any given storm, it seems premature to make a determination of the prudency of any particular charge at this time. In the event of a storm, the utility will bear the burden of showing that specific charges against reserves are prudent and reasonable. . . . We retain the right to review the costs and disallow any that are found to be inappropriate.

Order No. PSC-95-0255-FOF-EI, at p. 4. (Emphasis added).

Based on this Order, it is clear that, by retaining our authority to review the prudence and reasonableness of costs charged to the storm damage reserve, we also intended to retain our authority to determine whether a particular *category* of costs was appropriately charged to the storm damage reserve. It remains the utility's burden to show that specific charges against storm damage reserves are appropriate.

A review of Commission orders related to other electric utilities shows that we intended that each utility should be held to the same standard. Most notably, in an Order addressing a request by Gulf Power Company (Gulf) to amortize hurricane-related expenses to its storm damage reserve, we cite the TECO Order in the same breath as Order No. PSC-95-0264-FOF-EI (FPL) as the standard for our review of costs charged to a utility's storm damage reserve:

> The expenses related to the two hurricanes named above have not been reviewed by the Commission. In Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, related to the self-insurance mechanism for Florida Power & Light Company, the Commission stated: "...we have the authority to review any expenses charged to the reserve for reasonableness and prudence." In Order No. PSC-95-0255-FOF-EI, issued February 23, 1995, related to Tampa Electric

[1] Issued February 23, 1995, in Docket No. 930987-EI, In re: Investigation into Currently Authorized Return on Equity of Tampa Electric Company. (TECO)

> Company's self-insurance mechanism, the Commission stated: "[w]e retain the right to review the costs and disallow any that are found to be inappropriate."
>
> In accordance with our prior treatment of expenses related to individual utility self-insurance mechanisms, we retain the right to review Gulf's charges to the Accumulated Provision for Property Insurance Account related to these two storms, at any time, for reasonableness and prudence and to disallow any that are found to be inappropriate.

Order No. PSC-96-0023-FOF-EI, issued January 8, 1996, in Docket No. 951433-EI, In re: Petition for Approval of Special Accounting Treatment of Expenditures Related to Hurricane Erin and Hurricane Opal by Gulf Power Company, at p. 4.

PEF correctly states that at no prior time has a question been raised about its accounting for storm-related costs. However, this fact serves only to bolster the position that the methodology has indeed never been approved or in any manner been put at issue prior to the instant docket. Had we intended that Order PSC-94-0852-FOF-EI give approval to PEF's methodology, it would have expressly stated as much, and several if not all intervenors in the instant docket would have almost certainly objected to such a decision at that time. Certainly, we do not support a reading of Order PSC-94-0852-FOF-EI which would require this Commission to abrogate its authority to review the prudence and reasonableness of costs, or categories of costs, charged to a utility's storm damage reserve.

In conclusion, we find that Order No. PSC-94-0852-FOF-EI was not intended to approve the methodology proposed in PEF's Study as the standard by which we determine the costs to be appropriately charged to PEF's storm damage reserve. In Order No. PSC-94-0852-FOF-EI, we did not expressly approve the methodology proposed in PEF's study, and made no finding that the methodology was "reasonable" or "appropriate" or otherwise should be used as the continuing standard for charging costs to the storm damage reserve. We agree with the intervenors that PEF has failed to provide adequate justification as to why its methodology is the one which should be used in this proceeding. Therefore, our determination as to which costs are appropriately charged to PEF's storm damage reserve shall be made consistent with our findings in the other issues.

ADJUSTMENTS TO STORM-RELATED COSTS

Non-Management Employee Labor Expense

PEF is seeking recovery of non-management employee labor expense incurred during the 2004 hurricane restoration activities. OPC contends that PEF's proposal has customers paying twice for its non-managerial employees' regular salaries. OPC witness Majoros testified that PEF proposes to charge the full labor costs associated with storm recovery efforts to the storm damage reserve. He further testified that by moving all expenses associated with storm restoration to the storm reserve, without consideration of the normal level of expenditures funded through base rates, PEF has effectively required customers to pay twice for those costs. Mr.

Majoros stated that this practice is referred to as double dipping. OPC further argues that PEF is attempting to obfuscate the issue of double dipping by bringing up the issue of its catch-up work. Mr. Majoros concluded that regular pay salaries for bargaining unit and non-exempt employees, for both PEF and the service company, should be removed from the storm damage reserve.

FIPUG witness Sheree Brown testified that PEF's proposal seeks to hold PEF harmless from any damages related to the storms, while increasing costs to residents and businesses in PEF's service territory. Further, Ms. Brown stated that PEF's proposal seeks 100% cost recovery from consumers, with no contribution from PEF. She asserted that PEF has reduced its normal O&M expenses and has shifted these costs to hurricane damage accounts. This cost shifting resulted in favorable variances. She further explained that the favorable variances indicate that PEF spent less than it had originally budgeted, and that PEF's earnings from base rate revenues increased. Ms. Brown concluded that we should reduce PEF's storm damage claim by the amount of normal O&M expenses that were shifted into the storm damage accounts, and that these costs should be expensed during the time period incurred. She further stated that any future expenses charged to the storm damage accounts should be limited to verifiable incremental costs incurred over and above PEF's budgeted O&M.

Ms. Brown explained under questioning that the decline in the Company's O&M cost from August through October indicated that costs were shifted out of normal O&M over into the storm damage account. She further explained that "[p]utting your finger on the actual amount, I believe, is an insurmountable task that we don't have the evidence now, and I don't even believe that Progress Energy has the, has the knowledge of, of being able to tie down the exact numbers." Ms. Brown concluded that her recommended adjustment to bring PEF's ROE down to the 10% level in 2004 takes into account all the double dipping issues and it resolves them. As discussed below, we disagree with Ms. Brown's ROE adjustment.

PEF witness Wimberly testified that PEF charged all direct costs related to the hurricanes to the storm damage reserve. He also stated that budgets cannot be used as a tool to predict and account for the cost of hurricanes. However, Mr. Wimberly acknowledged that the purpose of the budget is to predict and anticipate ordinary costs on an annual basis, including such costs as regular salaries. Mr. Wimberly further testified that PEF has incurred and continues to incur additional costs from overtime and contract labor for catch-up work which was estimated to be over $25 million. However, on cross-examination by PEF, Mr. Majoros testified that "[e]ven if some of the tasks have shifted to the future periods, the flexibility of the budgeting process may easily accommodate them." Mr. Majoros asserted that PEF should be required to demonstrate that it will incur financial harm as a consequence of the catch-up tasks following the completion of storm repairs and that it has failed to do so in this docket.

Under cross-examination, Mr. Wimberly also acknowledged that when PEF's employees reported for the regular workday and if that day was spent working on storm-related matters, then the regular eight-hour workday was charged to storm accounts. Mr. Wimberly asserted that if work is related to hurricane restoration, then those costs related to that work is automatically extraordinary and chargeable to the storm accounts. He also acknowledged that a normal eight-

hour workday is not an extraordinary cost. Mr. Wimberly also agreed that there was nothing attached to his direct testimony to support the $25 million in catch-up work.

PEF witness Portuondo testified that PEF is seeking to enforce only its understanding reached and followed since 1993 concerning how PEF should account and recover for direct storm-related expenses. Mr. Portuondo testified that PEF is not "gaming" the system by shifting normal labor costs covered by base rates to storm accounts reimbursable through a special cost-recovery clause resulting in double dipping. He asserted that Ms. Brown reaches her conclusion that the Company engaged in cost shifting by looking at only part of the picture. Mr. Portuondo further stated that PEF's normal demands did not go away during the storms.

Mr. Portuondo explained under questioning that there are a number of tasks that still need to be accomplished, including Commission proceedings and SEC financial reporting obligations. Mr. Portuondo asserted that PEF will not recover its costs incurred since its does not have revenues coming in, and if the revenue is not coming then PEF is not getting the revenues that would directly offset those costs. However, Mr. Portuondo acknowledged that, prior to Hurricane Andrew, PEF's insurance did not cover lost revenues. On cross-examination by PEF, OPC witness Majoros testified that the catch-up work estimates should not be an issue in this case since the Company did not make a claim for lost revenues, and PEF achieved positive revenue variances according to its internal management budget presentations.

We agree with OPC witness Majoros that base rates support a budgeted level of O&M expense, and that shifting normal (budgeted) O&M expenses into the storm reserve account would constitute double recovery. Based on the evidence in the record, we find that a favorable budget variance is a reasonable indicator that normal costs were shifted to the storm reserve account based on PEF's actual restoration cost approach. It is the utility's burden to prove that its requested costs are reasonable. Florida Power Corporation v. Creese, 413 So. 2d 1187, 1197 (Fla. 1982). We find that PEF has failed to: 1) demonstrate that its customers would not pay twice for its normal non-management labor expense; 2) quantify any amount of lost revenues; and 3) support its estimated amount of catch-up costs as a result of the 2004 hurricane season. Therefore, PEF's non-management employee labor expense, except for customer service employees which are later discussed, shall be adjusted to reflect only the incremental costs above its budgeted levels for the year end 2004. To prevent PEF from collecting twice for its employees' regular pay, we shall disallow $5,140,639 of the amount PEF charged to the storm reserve. In doing so, we note that "it is the [Commission's] prerogative to evaluate the testimony of competing experts and accord whatever weight to the conflicting opinions it deems necessary." Gulf Power Co. v. FPSC, 453 So. 2d 799, 805 (Fla. 1984).

Managerial Employee Payroll Expense

PEF is seeking recovery of managerial employee payroll expenses incurred during the 2004 hurricane restoration activities. OPC witness Majoros concluded that regular pay salaries for exempt employees, for both PEF and the service company, should be removed from the storm damage reserve. As discussed below, we disagree with FIPUG witness Brown's ROE adjustment in order to account for any double recovery concerns. As discussed above, the utility

has not met its burden to support its lost revenues and catch-up work arguments to refute the double recovery concerns. We also agreed with OPC witness Majoros that base rates support a budgeted level of O&M expense, and that shifting normal (budgeted) O&M expenses into the storm reserve account would constitute double recovery.

PEF's attempt to distinguish its practice from double recovery based on the type of work performed is not supported in the record. Further, PEF has neither demonstrated that its customers would not pay twice for its managerial labor expense, nor supported its estimated amount of catch-up costs as a result of the 2004 hurricane season. Accordingly, PEF's managerial employees' labor expense, except for customer service employees which is discussed below, shall be adjusted to reflect only the incremental costs above its budgeted levels for the year end 2004. To prevent PEF from collecting twice for its managerial employees' regular pay, $6,197,565 of the amount PEF charged to the storm reserve shall be disallowed.

Time Period to Cease Charging 2004 Storm Costs

Also at issue in this proceeding is the point in time that PEF should stop charging 2004 storm restoration costs to the storm damage reserve. OPC witness Majoros testified that PEF plans to charge hurricane-related work still remaining after the storms have passed and operations have returned to normal. Mr. Majoros contends that PEF should stop charging 2004 hurricane-related costs to the storm account when PEF employees have returned to regular hours and the work is being performed by PEF employees and the contractors whom PEF engage on a routine, ongoing basis. However, OPC states that determining the proper point has been difficult to determine.

FIPUG and FRF agreed that charges to the storm reserve should cease no later than January 1, 2005. However, PEF witness Rogers testified that the majority of the crews assigned to the repair of the transmission system were still working ten-hour days, five or six days a week to complete the catch up and restoration work, including "sweeps" work[2]. PEF witness Lyash testified that restoration work should be completed by the second quarter of 2005. PEF witness McDonald was unable to state whether crews assigned to the repair of the distribution system had returned to a normal work week.

Given the extensive repairs necessary to PEF's system, we find it is unrealistic to stop accruals to the storm damage reserve at the conclusion of storm restoration activities or January 1, 2005, whichever occurred first. Even using the latest date of January 1, 2005, for the completion of all repairs, as FIPUG and FRF recommend, allows PEF less than a three-month period of time after the hurricanes to make these repairs. As discussed above, PEF was still incurring overtime costs for repairs after that date; in fact these repairs were continuing through the hearings in this case in late March, 2005. We therefore find that is reasonable and

[2] PEF Witness Wimberly referred to "sweeps" as work that could not be doing during the initial restoration process because the goal is to restore power as quickly and safely as possible. The objective of sweeps work is to "sweep" the T&D systems, determine the remaining storm damage, and restore the facilities and equipment to their condition prior to the hurricane.

appropriate that PEF shall stop charging costs related to the 2004 storm season, including sweeps works, no later than July 1, 2005.

Employee Training Costs

PEF incurred employee training costs associated with 2004 storm restoration activities. PEF witness Rogers testified that the Transmission Department's Storm Plan consisted of four elements. Those elements are pre-season activities, pre-storm activities, damage assessment and repair, and recovery follow-up activities. Ms. Rogers also stated that the pre-season activities included the necessary arrangements prior to the storm or hurricane season to insure that the Company was prepared. Ms. Rogers later testified that pre-season activities occur on a yearly basis, and as a result costs are included in the annual budget.

OPC states that employee training, including storm restoration training, is part of the normal operations of the Company and should not be charged to the storm damage reserve. Both Mr. McDonald and Ms. Rogers testified that no pre-season hurricane costs were charged to the storm account. PEF testified that there are no pre-season storm training costs charged to the storm account, and there is no indication in the record by any other party that there were any improper costs charged to the account for employee training for storm restoration work. We therefore find that it is reasonable that no adjustment shall be made for employee training costs.

Tree Trimming Costs

PEF requested recovery for tree trimming costs associated with the damage caused by Hurricanes Charley, Frances, Jeanne, and Ivan. OPC contends that PEF should be allowed to charge only the incremental cost of tree trimming above its normal, budgeted levels for the calendar year 2004. Based on information provided by PEF, OPC witness Majoros testified that PEF's tree trimming expenses were under budget for the months during and following the hurricanes. He asserted that base rates support a budgeted level of O&M expense, and that moving all expenses associated with the storm repair effort to the storm reserve, without taking into account the normal level of expenditures funded by base rates, that PEF is "double dipping." Mr. Majoros concluded that there should be a $3.9 million adjustment based on the favorable (under-budget) variance for tree trimming as of October 2004.

PEF witness Wimberly testified that the tree trimming budget for December 2004 showed that it was unfavorable (over budget) by $2.8 million, but was favorable (under budget) by $1.4 million for the year-end 2004. Through cross-examination by PEF, Mr. Majoros did agree that his $3.9 million adjustment for tree trimming should be changed based on Mr. Wimberly's rebuttal testimony. Mr. Majoros stated that because Mr. Wimberly testified that PEF was over-budget by $2.8 million, the adjustment should be zero. Through redirect examination, however, it became clear that Mr. Majoros had mistakenly believed that the $2.8 million unfavorable variance was for the entire calendar year 2004, rather than for only the month of December 2004.

During cross-examination, PEF witnesses McDonald and Mr. Wimberly explained that restoration tree trimming is different from PEF's budgeted production trimming. Restoration or spot trimming involves identifying individual trees/limbs that are interacting with the Company's

facilities and hindering the ability to restore service. Production trimming involves trimming based on the growth patterns of trees that occur in the Company's right-of-ways. Mr. Wimberly further added that production trimming is paid on a per-mile basis.

As discussed below, we disagree with FIPUG witness Brown's ROE adjustment in order to account for any double-dipping concerns. As discussed previously, we do not believe that the utility has met its burden to support its lost revenues and catch-up work requests to refute the double dipping concerns. We agree with OPC witness Majoros that base rates support a budgeted level of O&M expense, and that shifting normal O&M expenses into the storm reserve account constitutes double dipping.

Without the level of information from a detailed incremental cost analysis, which was not provided, we find that a favorable budget variance is a reasonable indicator that normal costs were shifted to the storm reserve account under the Company's actual restoration cost approach. It is the utility's burden to prove that its requested costs are reasonable. See Florida Power Corporation v. Cresse. We note that PEF has failed to demonstrate that the customers would not be paying twice for the normal tree trimming expenses. Based upon the evidence of record, we find that PEF shall be allowed to charge only the incremental cost of tree trimming above its normal, budgeted levels for the calendar year 2004. As a result, $1.4 million of the amount PEF charged to the storm reserve shall be disallowed.

Company-Owned Fleet Vehicle Costs

PEF incurred transportation costs associated with its hurricane restoration activities, including operating costs, fuel expense, and repair and maintenance expense of its fleet vehicles. OPC contends that PEF is seeking to charge vehicle depreciation expense and base levels of operating costs to the storm reserve. Based on information provided by PEF, OPC witness Majoros testified that PEF's storm reserve account includes the following Company-owned fleet vehicle expenses: 1) $909,000 for depreciation; 2) $702,000 for fuel; 3) $1.6 million in maintenance; and 4) $222,000 in overhead. He stated that although Company vehicles have been used in the storm recovery effort, these vehicles have already been included in the annual budget. He asserted that base rates support a budgeted level of O&M expense. He further testified that, by moving all expenses associated with the storm repair effort to the storm reserve, without taking into account the normal level of expenditures funded by base rates that customers pay, PEF effectively requires customers to pay twice for the costs.

Mr. Majoros stated that depreciation and vehicle overhead would be the same regardless of whether they are used for storm damage restoration or used in the regular course of business. He asserted that the only extraordinary vehicle cost that the Company incurred is the incremental cost of fuel, due to longer daily operations. Based on the assumption that vehicles were in use 16 hours per day during storm restoration, rather than the normal 8 hours per day, Mr. Majoros recommended that one-half of the fuel expense be included in the storm reserve. Mr. Majoros concluded that an adjustment of $3,043,015 related to vehicle expense should be removed from the amount PEF charged to the storm reserve account.

PEF witness Wimberly stated that the Company charged all direct costs, including vehicle expense, related to the hurricanes to the storm reserve consistent with long-standing Commission orders, policy, and utility practice, as explained in the rebuttal testimony of PEF witness Portuondo. Mr. Wimberly argued that Mr. Majoros' adjustment to reduce the fuel cost by half is based on the actual money spent on fuel during the hurricane restoration process, not the budget. Mr. Wimberly contended that Mr. Majoros overreaches here because he made no effort to determine the budgeted amount of fuel for the days of the hurricane restoration effort from the annual Energy Delivery budget for 2004. In its brief, OPC argued that Mr. Wimberly does not refute that these vehicles would be used 8 hours per day irrespective of the storms.

As stated previously, we disagree with FIPUG witness Brown's ROE adjustment in order to account for any double-dipping concerns; further, we find that the utility has not met its burden to support its lost revenues and catch-up work arguments. We agree with OPC witness Majoros that base rates support a budgeted level of O&M expense and that shifting normal O&M expenses into the storm reserve account would constitute double dipping. We also agree with Mr. Majoros that vehicle depreciation, maintenance, and overhead would be incurred regardless of the storms in 2004. It is the utility's burden to prove that its requested costs are reasonable. See Florida Power Corporation v. Cresse. PEF has failed to demonstrate that the customers would not be paying twice for the normal vehicle expenses and failed to quantify any incremental increases for fuel, maintenance, and overhead. Based upon the evidence of record, we find that is reasonable and appropriate that PEF shall charge only the incremental fuel costs associated with extra shifts. As a result, $3,043,014 million of the amount PEF charged to the storm reserve shall be disallowed.

The following table shows the calculation for how we arrived at our approved vehicle expense adjustment:

Depreciation	$ 909,352
Half of Fuel Expense ($702,796/2)	350,898
Maintenance	1,560,600
Overhead	222,164
Total Vehicle Expense Adjustment	$3,043,014

Call Center Activity Costs

PEF incurred a range of communications costs associated with the 2004 hurricanes, related to awareness, customer preparation, outage reporting instructions, and safety. A portion of those costs are related to PEF's call centers, which handled outage calls and helped answer customer questions. As stated by witness Lyash, the total cost for communications associated with the four storms, including the Customer Service Center activities, was $3.6 million. PEF stated that it has not deducted its budgeted O&M expenses from the storm reserve.

OPC contends that PEF should charge only extraordinary levels of the call center expenses, incremental to the normal levels, to the storm damage account. OPC witness Majoros stated that OPC developed some guidelines designed to ensure that only extraordinary expenses would be booked to the storm reserve account and he endorsed those guidelines. Mr. Majoros testified that call center activities should be excluded except for non-budgeted overtime associated with the storm event. He further testified that, by moving all expenses associated with the storm repair effort to the storm reserve, without taking into account the normal level of expenditures funded by base rates that customers pay, PEF effectively requires customers to pay twice for the costs. Mr. Majoros asserted that call center expenses for the storm cost recovery should be limited to the call overloads created by the storms.

Mr. Majoros stated that he had reviewed PEF's internal management budget presentations to determine the amount of normal O&M expenses shifted to the storm reserve. Although PEF's internal budget has been reviewed by Mr. Majoros, in its brief, OPC stated that it has not formulated a numerical adjustment for call center activities at this time. We note that FIPUG witness Brown testified that it is an insurmountable task to put your finger on the actual amount of normal O&M expenses shifted to the storm reserve because she does not believe PEF has the knowledge to enable the utility to tie down the exact numbers. We agree, in principle, with Mr. Majoros that call center activities should be excluded except for non-budgeted overtime associated with the storm event because the normal payroll expense is recovered through base rates.

In determining the appropriate amount of labor payroll in the storm reserve, we previously found that the regular salaries of management and non-management employees, except for call center employees, that were charged to the storm reserve shall be disallowed. PEF provided a breakdown of the total salaries charged by department and by type of pay (i.e. regular, extended pay, special pay, double time, and overtime, etc.). PEF recorded total "FPC Customer Service" payroll expense of $1,063,949 in the storm reserve. PEF witness Lyash testified that PEF had over 425 associates dedicated to handling outage calls during the storms and that there are normally 250 customer service representatives handling calls 24 hours a day, seven days a week. As such, this indicates that approximately 59% (250 normal employees divided by 425 employees designated during the storms) of call center expenses charged to the storm reserve were normal expenses.

It is the utility's burden to prove that its requested costs are reasonable, and PEF has failed to demonstrate that the customers would not be paying twice for the normal call center expenses. Based on the evidence in the record, we find that it is reasonable to disallow $625,852 (approximately 59% of $1,063,949) from the amount PEF charged to the storm reserve. Further, consistent with Mr. Majoros' testimony, in the future, PEF shall adjust call center activity expenses charged to the storm reserve by the incremental difference of call load experience during and immediately after hurricanes with the actual prior 3-year average call load during the same time period involved.

Advertising and Public Relations Costs

PEF seeks recovery for communications costs associated with providing information to the public, local and state officials, and the media. PEF witness Portuondo testified that PEF charged special advertising and media costs associated with customer information, public education and safety to its Storm Damage Reserve. PEF witness Lyash testified that PEF's communication plan includes proactive advertising and media communication of public awareness and safety messages before, during, and after the storm; working with the media to provide customers with estimated times of restoration; communicating directly with individual customers; and communicating with local, county, and state officials to keep them informed of PEF's activities.

In his prefiled testimony, witness Lyash describes PEF's extensive communication effort before, during, and following the four storms. PEF's efforts included, but were not limited to, reinforcing key preparation and safety messages to its customers through print, radio, and television, increasing staffing in its Customer Service Centers to provide the latest information to its customers, and providing professional personnel for each county Emergency Operations Center as well as the state Emergency Operations Center. PEF witness McDonald testified regarding the importance of frequent communications to state and local governments, the Commission, and PEF's retail commercial, industrial, governmental, residential and wholesale customers. As witness McDonald testified, these constituencies are dependent upon the communicated information to make critical decisions of their own, therefore the timeliness and accuracy of PEF's status reports are critical.

As stated by witness Lyash, the total cost for communications associated with the four storms, including the Customer Service Center activities addressed above, was $3.6 million. PEF indicates that this $3.6 million has been included in the O&M expenses for which the utility seeks recovery of $251.9 million.

OPC, Sugarmill Woods, AARP and FRF take the position that we should disallow $2,428,891, or the rounded $2.4 million, in advertising and/or public relations expense. FIPUG takes the position that PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred, but it has not quantified the incremental amount. Further, it cannot be determined how the $2,428,891 stated in the other parties' positions was derived or why it differs from PEF's $3.6 million. OPC witness Majoros testified that the amount charged to the storm damage reserve account should exclude all expenses associated with advertising expense. He also testified that he was unable to quantify the call center expenses, which is part of the $3.6 million.

In Commission proceedings, advertising expenses are generally examined on a case-by-case basis. If the utility's advertising expenses are found to be informational, educational or safety-related in nature and beneficial to its ratepayers, we generally allow recovery. If, on the other hand, advertising expenses are found to be institutional, image-building or provide no benefit for the regulated ratepayer, we generally disallow recovery. See Order No. PSC-02-0787-FOF-EI, Docket No. 010949-EI, issued June 10, 2002, In re: Request for rate increase by

Gulf Power Company; Order No. PSC-03-0038-FOF-GU, Docket No. 020384-GU, issued January 6, 2003, In re: Petition for rate increase by Peoples Gas System; Order No. PSC-04-0128-PAA-GU, Docket No. 030569-GU, issued February 9, 2004, In re: Application for rate increase by City Gas Company of Florida; Order No. PSC-04-0565-PAA-GU, Docket No. 030954-GU, issued June 2, 2004, In re: Petition for rate increase by Indiantown Gas Company; and Order No. PSC-04-1110-PAA-GU, Docket No. 040216-GU, issued November 8, 2004, In re: Application for rate increase by Florida Public Utilities Company.

We have no reason to believe that the costs that were expended for advertising, communications, and public relations expense fail to meet our criteria of being recoverable, as they are believed to be informational, safety-related, and beneficial to PEF's regulated ratepayers. In addition, due to the circumstances of the four back-to-back storms, we find that these costs were expended under extraordinary circumstances. However, as shown by witness Lyash, the advertising and public relations expenses are closely related and combined into the $3.6 million category included in PEF's request for storm damage recovery. Furthermore, as stated throughout this Order, we are approving recovery through the storm recovery reserve of only the costs that are over and above normal O&M costs.

Because the record does not establish the normal advertising and public relations expense, and because of the apparent close interrelationship between the Customer Service Center, advertising expenses and public relations expenses, we find that it is reasonable to apply the same percentage applied to call center expenses, i.e. 59%, to the remaining $2,536,051 with respect to advertising and public relations costs ($3,600,000 less $1,063,949 [payroll]). The resulting $1,496,270 shall therefore be disallowed. This $1,496,270 adjustment is in addition to the $625,852 reduction for Customer Service Center personnel previously approved. Further, in the future, PEF shall exclude budgeted advertising and public relations expense from its storm damage reserve.

Uncollectible Expenses

PEF is seeking recovery for $2.25 million in bad-debt write-offs due to storm damage. PEF witness Portuondo testified that the Company included in its O&M costs charged to the storm reserve all actual repair activities and those activities directly associated with storm damage and restoration activities. He further stated that one of the items PEF charges to the Storm Damage Reserve is identifiable bad debt write-offs due to storm damage.

OPC, SMW, AARP and FRF take the position that we should disallow the $2.25 million. The intervening parties believe that uncollectible expense should not be included because it does not fall into the category of repairing PEF's system and restoring service. Further, they believe that it cannot be determined if the uncollectible expense was attributable to the storms.

OPC witness Majoros stated that OPC's Storm Damage Guidelines specifically exclude uncollectible expense. He testified that the amount is speculative, and unlike other types of expenses which will ultimately be trued-up, uncollectible expense is likely to remain speculative as there is no way to determine if a customer's account must be written off specifically due to the

storm, or for other reasons. Witness Majoros goes on to state that PEF has failed to demonstrate the actual amount of uncollectible expense it may have incurred due to the storms.

We find that there can be a direct relationship between hurricane activity and the level of bad debts that is supportable if not directly identifiable. Also, bad debt expense should not automatically be excluded from recovery through the storm damage reserve simply because it does not fall into the category of repairing PEF's system and restoring service.

PEF witness Wimberly testified that there was an increase in bad debts incurred during the course of the hurricanes. Mr. Wimberly stated that the bad debt costs have increased and are coming in as predicted. The Company produced Late-Filed Exhibit 52, entitled Description of the Normal Accounting for Bad Debt. The description outlines PEF's normal accounting for bad debt expense and the effect on related accounts, including the reserve. The exhibit also included PEF's calculation of $2.25 million, which is the combination of two separate components. First, the July 29, 2004, projection of net write-offs for 2005 was $5.7 million, versus the September 5, 2004, projection of $7.3 million for 2005, which represents a $1.6 million increase from escalated arrears from Hurricane Charley. According to the Company, this $1.6 million did not include the impacts of Hurricanes Frances, Ivan, or Jeanne. Second, the projection of the remaining $650,000 is included to represent the potential maximum impacts of all four storms.

Our staff reviewed PEF's methodology and accounting process for recording bad debt and the related accounts, as well as this Commission's past practice of handling uncollectible expense and the bad debt factor in base rate proceedings. Not carving out the uncollectible expense that is directly related to the storms for recovery through the Storm Damage Reserve could result in the write-offs that are directly attributable to the storms being rolled into future base rates through the rolling 12-month average, or it could result in no recovery at all, depending upon how these costs are viewed in rate case proceedings. We find that allowing recovery through the storm damage reserve will help prevent the possible skewing of bad debt expense and the bad debt factor, which is a component of the base rate revenue expansion factor. Therefore, we find that it is preferable to recover the write-offs that are directly related to the hurricanes through the Storm Damage Reserve.

PEF has shown that its $2.25 million of uncollectible expense for 2005 is directly associated with storm damage and restoration activities and that the Company's testimony supports that it is experiencing bad debt costs that are in line with its $2.25 million predictions. For the above reasons, we approve PEF's request to recover $2.25 million of bad debt expense through the storm cost recovery mechanism that we establish herein. However, any recoveries of the directly related uncollectible expense shall be credited to reduce the amount of unrecovered storm damage costs.

Revenues for Assistance With Storm Restoration Activities

Also at issue in this proceeding was whether PEF should be required to offset its storm damage recovery claim by revenues it received from other utilities for providing assistance in those utilities' storm restoration efforts. Specifically, FIPUG witness Brown testified that PEF

assisted Dominion Power with its restoration efforts after Hurricane Isabel, and that the Company was reimbursed $1.1 million for labor and associated taxes and benefits. Ms. Brown argued that the normal hourly costs for those PEF employees that assisted would have already been recovered through base rates. She stated that PEF also assisted Entergy in restoration efforts after Hurricane Lili and assisted Progress Energy Carolinas, Inc. (PEC) in storm restoration efforts.

Ms. Brown asserted that if PEF is allowed to recover its storm damage costs through a recovery clause, it should not be allowed to retain any revenues received for assisting other utilities in their restoration efforts to the extent that the revenues were to reimburse PEF for normal O&M expenses. She argued that it would constitute double dipping, if the revenues received for normal wages, benefits, and payroll taxes of PEF employees who assisted other utilities in their restoration efforts were not offset against PEF's storm damage expenses. Ms. Brown concluded that PEF should be required to credit the storm damage reserve in the future by revenues received for normal wages, benefits, and payroll taxes when assisting other utilities in storm-related activities.

PEF witness Portuondo testified that Ms. Brown ignores the fact that PEF employees who were diverted from their normal tasks had to return to those activities after they completed their assistance to other utilities. He stated that the services which those employees performed outside PEF's service territory did not benefit its customers nor did its customers pay for those services. Mr. Portuondo argued that PEF used the base rates it collected from customers to pay for the normal work that these employees were expected to perform before and after their out-of-state assignment. He explained that, at the same time, the Company used the revenues collected from other utilities to defray the cost of the services these employees provided outside PEF's territory. Mr. Portuondo concluded that it was illogical to credit PEF's customers with revenues collected outside its territory for work that benefited other customers.

We agree with PEF witness Portuondo that no credit should be made for revenues collected outside its territory for work that benefited other customers. The assistance provided by PEF employees to other utilities has no direct relationship with storm damage expenses that the Company incurred as a result of the 2004 hurricanes. Based on the evidence in the record, we find that it is reasonable to make no adjustment to the storm reserve for any revenues received for assisting other utilities in their restoration efforts.

Retirement of Damaged Plant-In-Service

PEF removed an estimated $47 million from the storm reserve and applied that amount to its plant-in-service accounts. This remained at issue in this proceeding, according to the following stipulation which we have approved herein:

> With respect to replacements of plant items associated with 2004 post-storm repair and restoration activities, the parties stipulate and agree that PEF shall book to plant in service the normal cost of new plant additions under normal operating conditions, and shall book to the storm reserve (as extraordinary O&M) only the costs of new plant additions that exceed those normal amounts. PEF stipulates

> and agrees to verify that it has implemented this methodology and to provide final values for the portions of costs associated with new plant additions that it has booked to plant in-service and to the storm damage reserve, respectively, after it has completed the booking of relevant costs. PEF's current estimate of costs that it will book to plant in service using this methodology is approximately $47 million dollars.
>
> This partial stipulation addresses only the appropriate accounting methodology to be employed for the accounting of costs associated with plant replacements, and does not prevent any party from challenging the reasonableness or prudence of any individual cost item. Further, the partial stipulation does not address the aspects of Issue 12 that treat retirements and cost of removal expense, which remain at issue.

The staff audit report of PEF in this docket, sponsored by Staff witness Jocelyn Y. Stephens, stated that the audit was conducted to summarize storm costs by storm and resource type and selected resource categories for testing. Witness Stephens provided two audit disclosures relevant to the issue of retirements and the cost of removal expense. Audit Disclosure No. 1 addresses the capital expenditures. She stated that after reviewing the monthly accrual to the storm damage account, PEF was unable to indicate which of the actual costs would be transferred to plant and which would be transferred to O&M expenses. As stated above, PEF stipulates and agrees to book to plant in service the normal cost of new plant additions under normal operating conditions, and shall book to the storm reserve (as extraordinary O&M) only the costs of new plant additions that exceed those normal amounts.

Audit Disclosure No. 3 addresses removal labor costs. According to Staff witness Stephens, PEF isolated dollars for removal labor cost but did not include these dollars in the capital estimate total. Staff witness Stephens recommended that an adjustment be made to remove these costs from the storm reserve account and include them in the capital account.

PEF witness Portuondo stated that it was PEF's intent all along to make sure that the cost of removal was removed from the total final storm damage reserve as well as any other capital related expenditures. Mr. Portuondo testified that PEF intends to retire approximately $19 to $20 million of plant associated with storm damage. He also said that the ratio of cost of removal to retirements is approximately 5%. Mr. Portuondo stated that the 5% ratio assigned to cost of removal vs. retirements is the amount PEF would have envisioned expending to accomplish the removal of the retirements. He also stated that PEF has estimated approximately $1.2 million for storm related cost of removal based on this percentage. Mr. Portuondo admitted that the cost of removal rate is much lower than the PEF consultant's theoretical calculation in its current depreciation study.

OPC witness Michael J. Majoros believes that PEF has failed to provide the necessary accounting documentation that demonstrates the procedures it will apply for plant additions, cost of removal, and capital replacements made necessary by storm damage. He stated that PEF should provide the actual cost of removal accounting entries. He further states that PEF's current

cost of removal reserve for transmission and distribution facilities ($528 million) compared to the cost of retirements is 42%. Mr. Majoros testified that the cost of removal expense due to storm damage should be recalculated using the ratio derived from PEF's current depreciation study or PEF's most recent study that relates current cost of removal to the cost of retirements. He stated that if the most recent depreciation study ratio (42%) was used by PEF, then the minimum cost of removal would be $8.4 million.

We find that the cost of removal expense, which was not stipulated and remains at issue, needs to be adjusted. PEF's past depreciation studies show that the ratio of the cost of removal to the cost of retirements is significantly higher than the 5% that PEF has assigned. Information provided by PEF to OPC was the basis for Mr. Majoros' calculation of 42% for cost of removal to cost of retirements. According to PEF's response to OPC's third set of interrogatories:

> When the final cost of all Hurricane replacement assets installed is calculated, PEF will record a charge for all calculated removal cost to the accumulated depreciation expense account for the calculated removal cost. To date this transaction has not been recorded as final cost and all work has not been completed related to all fixed asset replacements. The removal cost will be treated similarly to the replacement of fixed assets and will not be applied to the storm damage fund.

We agree with PEF's assertion that it collects the cost of removing an item of plant through depreciation rates supported by the base rates, and that those costs will not be applied to the storm damage fund. We find that any calculated removal costs for plant damaged or destroyed by the Hurricanes shall reflect the rate that PEF is currently using to calculate removal cost. We disagree with PEF that 5% of retirements is the rate that PEF should use to calculate storm damage removal cost. PEF has not provided any evidence in the record to support the use of this rate.

We find that the 42% ratio used by Mr. Majoros is a reasonable number, and is supported by the record. Therefore, the storm damage reserve shall be adjusted by $8.4 million, and this amount shall be included in PEF's capital account.

Appropriate Costs to be Charged Against the Storm Damage Reserve

As discussed above, we have made several adjustments to the costs that PEF seeks to recover in this proceeding, from which we must then determine the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve, subject to true-up.

PEF witness Portuondo testified that PEF's self-insured storm damage reserve currently accrues $6 million annually and will have a balance of $46.9 million as of December 31, 2004, before any offset for storm-related costs in 2004. He stated that the storm-related costs experienced by PEF are currently estimated at approximately $366.3 million on a total system basis. Of this amount, Mr. Portuondo explained that approximately $311.4 million are storm-related O&M expenses on a total system basis. He stated that PEF has incurred capital

expenditures of $54.9 million on a total system basis to date as a result of the four hurricanes and that those expenditures will be carried by PEF until its next base rate adjustment.

Based on our preceding and subsequent findings, the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to true-up is $271,476,895 ($285,108,136 system). The following table shows our calculation:

PEF Estimated 2004 Storm Damage Expenses		$366,337,926
Less: Amount of Capital Expenditures Deferred to Next Rate Case		54,926,450
Total PEF System O&M Expenses		$311,411,476
Less: Commission-Approved Adjustments		
Non-Management Payroll Expense.....	($5,140,639)	
Managerial Payroll Expense.....	(6,197,565)	
Tree Trimming Expenses.....	(1,400,000)	
Vehicle Expenses.....	(3,043,014)	
Call Center Costs.....	(625,852)	
Advertising & Public Relations Expense..	(1,496,270)	
Costs of Removal.....	(8,400,000)	(26,303,340)
Total Comm. System O&M Expenses Before Netting Reserve Balance		$285,108,136
Retail Jurisdictional Separation Factor		0.952189225
Total Comm. Retail O&M Expenses Before Netting Reserve Balance		$271,476,895

With all of the capital and O&M expense adjustments discussed above, we note that PEF's 2004 achieved ROE would be reduced from 13.48% to 12.66%, which represents a reduction of 82 basis points.

APPROPRIATE AMOUNT OF STORM-RELATED COSTS TO BE RECOVERED FROM CUSTOMERS

As discussed above, we have determined that the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to

true-up. We must also determine what the appropriate amount is of storm-related costs to be recovered from PEF's customers.

After the storm damage reserve is applied, PEF witness Portuondo testified that the remaining amount of storm-related O&M expense is $264.5 million, or $251,850,486 million allocated to the Company's retail jurisdiction that PEF seeks to recover. Assuming recovery in equal amounts over two years with interest and a commencement date of January 1, 2005, Mr. Portuondo recommended recovery of $132.2 million in 2005 and $128 million in 2006. He stated that the true-up of estimated costs to actual costs, with interest at the commercial paper rate would be applied to any over or under-recoveries. Based on our findings and the most recent commercial paper rate, the appropriate amount of storm-related costs to be recovered from the customers is $231,613,565. The following table shows our calculation:

Total Comm.System O&M Expenses Before Netting Reserve Balance	$285,108,136
Less: 12/31/04 Reserve Balance	(46,915,219)
Total System O&M Expenses Net of Reserve Balance per Comm.	$238,192,917
Retail Jurisdictional Separation Factor	0.952189225
Comm. Amount to Recover from Customers Before Interest & Taxes	$226,804,729
Plus: Interest Per Commission	4,867,856
Comm. Amount to Recover from Customers with only Interest	$231,672,585
Revenue Tax Multiplier	1.00072
Total Commission-Approved Amount to Recover from Customers	$231,839,389

ACCOUNTING TREATMENT OF UNAMORTIZED STORM-COST BALANCE

Although not specifically addressed by the witnesses at the hearing or in the parties' briefs, we have also determined the appropriate account in which to record the approved deferred storm-related costs during the period that they are being amortized. Once an amount is approved for recovery and amortization, it meets the definition of a regulatory asset. In this instance, the appropriate account is Account 182.1, Extraordinary Property Losses. This account was specifically created to include extraordinary losses, such as unforeseen damages to property, which are not covered by insurance or other provisions. This would include the amount of the storm-related costs, approved herein for future recovery, that exceeded the balance in the storm damage reserve. In order to assist in the tracking and review of the amounts included in this account and their subsequent amortization, a separate subaccount of Account 182.1 shall be established to record these transactions. The appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery is to record the costs as a regulatory asset in a subaccount of Account 182.1, Extraordinary Property Losses. We note

that this would be the "normal" accounting treatment for Commission-approved deferral and future recovery of extraordinary property losses.

CALCULATION OF INTEREST ON STORM-RELATED COSTS

All parties that have taken a position on this issue agree that, to the extent recovery of storm damage restoration costs is granted through a storm cost recovery clause or surcharge, PEF should be allowed to charge interest at the applicable 30-day commercial paper rate. (Category One Stipulation No. 3) The remaining determination for this issue is the appropriate balance on which the commercial paper rate should be applied.

Consistent with Rule 25-6.0143(4)(b), Florida Administrative Code, PEF booked storm damage restoration costs to its Storm Damage Reserve for regulatory purposes. For tax purposes, however, PEF expensed the storm damage restoration expenses in 2004. This treatment resulted in the Company booking additional accumulated deferred taxes of approximately $135.8 million. While this is a temporary timing difference that will be reversed as the storm damage surcharge is collected, in the meantime the deferred taxes are a source of cost-free capital to the Company.

In its petition, PEF dealt with the storm-related deferred taxes by including a certain amount in its capital structure. FIPUG witness Brown testified that the Company should recognize the storm-related deferred taxes in the calculation of interest carrying charge on the unamortized balance of any storm-related costs the Company is permitted to recover from ratepayers. Specifically, she testified that the Company should only be allowed to charge interest on the net-of-tax balance of the storm damage account.

All things being equal, including the storm-related deferred taxes in the capital structure as zero-cost capital would result in a greater benefit to ratepayers than using the deferred taxes as an offset to the unamortized storm damage balance in the interest calculation. However, in the instant case, all things are not equal. The ratepayers only benefit from the inclusion of storm-related deferred taxes in the capital structure if rates are reset when the deferred taxes are present. Because the Company is using 13-month average balances in a December 31, 2006 projected test year, by operation of math, over half of the storm-related deferred taxes will have turned around and therefore will not be recognized in the 2005 rate case. To capture the value of the storm-related deferred taxes for the benefit of the ratepayers, we are approving a compromise approach.

Because the Company's petition is predicated on including a certain portion of storm-related deferred taxes in the capital structure, we are leaving this amount intact and afford it the treatment it would ordinarily receive in the rate case. However, for the remaining portion of storm-related deferred taxes that, by operation of math, are not included in the capital structure, we make use of the information from Exhibits 25 and 49 provided by PEF witness Portuondo and Exhibit 39 provided by FIPUG witness Brown to determine the net-of-tax balance for purposes of calculating the interest carrying charge. Specifically, interest shall be calculated on the net-of-tax balance for the period July 2005 through June 2006. Interest will be calculated on

the remaining balance, without any adjustment for deferred taxes, for the period July 2006 through June 2007. This adjustment reduces the interest carrying charge on the unamortized balance of storm-related costs by approximately $2 million. In this manner, we can capture the value of that portion of the storm-related deferred taxes for the benefit of PEF's ratepayers that would have otherwise gone unrecognized.

APPROVAL OF TEMPORARY SURCHARGE

As discussed below, we find that the storm costs approved for recovery shall be treated as a temporary surcharge, rather than a cost recovery clause. While the impact on customers' bills is the same under either mechanism, we have concerns about approving a clause to recover extraordinary costs, particularly on a retroactive basis.

Parties' Arguments

PEF's petition asked for a two-year limited Storm Cost Recovery Clause. The arguments for a cost recovery clause are based on the limited nature of the requested recovery, the volatility and unpredictability of storm related costs, and the desirability of matching recovery with cost incurrence. Further, PEF notes that we stated that we would consider a cost recovery clause in the orders establishing the self-insurance programs. PEF further suggests that since the costs did not occur in a test year, recovery would not be allowed in its pending rate case. PEF also suggests that if the costs "have to be recovered from the ratepayers," they necessarily must be recovered outside of base rates, and revenues and a cost recovery clause mechanism is the only way to do that in a timely manner. As further evidence of appropriateness of the clause recovery mechanism for storm damage costs, PEF cites the clause recovery of security expenditures incurred in response to the September 11, 2001 terrorist attacks, which were traditionally treated as base rate costs. Like the security costs, PEF agrees with our logic that it is important to align the recovery of the costs with the cost incurrence so that customers who benefited from the expenditures paid for them.

OPC, FIPUG, and FRF maintain that PEF's request for a cost recovery clause is an attempt to circumvent the Stipulation approved by Order No. PSC-02-0655-AS-EI, which prohibits PEF from raising its base rates prior to January 1, 2006, absent a Return on Equity (ROE) threshold. The intervenors argue that the Stipulation gave the utility an unlimited upside on earnings in exchange for foregoing base rate increases, unless PEF's ROE fell below 10%. OPC and SMW also note that there was no cost recovery clause in place at the time the costs were incurred and that the only provision for storm cost treatment was through base rates. It would therefore be inappropriate to use a clause which did not exist at the time costs were incurred to recover the costs. FRF argues that storm related costs have traditionally been recovered through base rates and that PEF's petition for relief could be considered a request for base rate relief envisioned under the Stipulation, assuming PEF's ROE fell below 10% as a result of the costs. FIPUG maintains that Commission orders clearly state that storm costs are part of base rates, citing the FPL order wherein the Commission specifically declined to implement a cost recovery clause like the one proposed by PEF in this case.

Decision to Approve Temporary Surcharge

We recognize the similarities in customer impact between styling the recovery mechanism as a "temporary surcharge" or a "cost recovery clause." However, there are some fundamental differences between the two concepts which must be recognized, and which supports that a temporary surcharge is a more appropriate mechanism.

PEF is asking for recovery for pre-determined costs which occurred prior to the adoption of the clause. Although cost recovery clauses have true-up mechanisms, they are essentially forward-looking. Rates are based on projected costs and trued-up to actual. When the current clauses were adopted, our orders specifically stated that they would be applicable only prospectively, to costs incurred after the adoption of the clause. Order No. 9974, issued April 24, 1981, in Docket No. 810050-PU, In re: Conservation Cost recovery clause, notes that Order No. 9273, issued March 7, 1980, established the energy cost conservation clause for conservation costs expected to be incurred starting January 1, 1981. Similarly, the Oil Back-out Clause was approved in Order 11210, issued September 29, 1982, in Docket No. 820001-EU, In re: Investigation of fuel cost recovery clauses of electric utilities, for recovery of costs of oil back-out projects for the period October 1, 1982 through March 31, 1983. On February 24, 1992, we issued Order 25773, in Docket No. 910794-EI, In re: Generic Investigation of the proper recovery of purchased power capacity cost by investor-owned electric utilities, establishing the Capacity Cost Recovery Clause for all utilities for costs beginning October 1992. We were even more specific in Order No. PSC-94-0044-FOF-EI, approving an environmental cost recovery clause for Gulf Power Company. In that order we said:

> One issue before us is whether it is appropriate to recover costs through the Environmental Cost Recovery Clause (ECRC) that were incurred before the effective date of the ECRC legislation. We shall only approve recovery of expenses incurred after April 13, 1993 for Gulf Power Company. Statutes are applied on a prospective basis unless there is a specific exception within the language of the statute. Thus, costs incurred prior to the effective date of the statute would not be eligible for recovery through the clause. The allowance of expenses incurred prior to the establishment of an environmental cost recovery clause is inappropriate. (Order p. 1-2)

We agree with PEF that cost recovery clauses were designed to recover costs which are volatile and unpredictable. We also agree that all four current clauses address costs that are unpredictable, volatile and irregular, due to forces outside the utility's control. The original purpose of recovery clauses was to address on-going costs which could fluctuate between rate cases and unduly penalize either the utility or customers, if such costs were included in base rates. PEF in its petition asked for a time-limited "clause," which is contrary to the concept and operation of existing clauses that address recurring costs. In addition, we agree with OPC that a true clause is not limited to a specific event. The two year limitation proposed by PEF looks more like a temporary surcharge than a recovery clause because it does not contemplate the need for such a clause on an on-going basis.

We are concerned with the precedent of establishing a specific clause for any extraordinary expense a utility might incur between rate cases. Although we have decided to include security costs in the fuel cost recovery factor, that decision was based on an immediate need to protect the health, safety and welfare of the utility and its customers, and there was a basis for believing the costs would be recurring on some level. Order No. PSC-01-2516-FOF-EI, issued December 26, 2001, in Docket No. 010001-EI, In re: Fuel and purchased power cost recovery clause and generating performance incentive factor, states:

> We believe that approving recovery of this incremental power plant security cost through the fuel clause sends an appropriate message to Florida's investor-owned electric utilities that we encourage them to protect their generation assets in extraordinary, emergency conditions as currently exist. (Order p. 4)

That Order also notes that to date, FPL was the only utility to request such recovery and that as more was known about the security costs, other recovery mechanisms might be used.

We are also concerned that using a cost recovery clause to recover a single extraordinary cost is inconsistent with the traditional application of such clauses and could create a troublesome precedent for recovering a single expense without consideration of a company's total operation. This idea of a limited proceeding has rarely been used in the electric industry for that very reason. As some costs go up, some go down, and absent extraordinary circumstances, all balancing impacts should be considered in setting rates. The fact that the storm damage reserve has been sufficient for 12 years would indicate that it is an appropriate mechanism for normal, year-to-year storm expenses. Under the previous Commission orders cited, utilities maintain the right to ask for assistance should the storm damage reserve be insufficient, as in 2004, but that ability does not translate into the need for a cost recovery clause.

If at some point in the future we wish to consider the establishment of a storm cost recovery clause for prospective expenses, in addition to or in place of the self-insurance mechanism, that is our prerogative. However, since no such clause existed prior to the incurrence of the costs to be recovered, the requested recovery period is finite and limited in nature, and such costs are not ongoing and are currently treated in base rates, we find that it is reasonable to approve a temporary surcharge mechanism for storm cost recovery instead of a recovery clause mechanism.

As discussed subsequently, the parties have stipulated that any costs approved for recovery shall be collected over a maximum period of two years. Further, the parties have stipulated that any approved mechanism be effective thirty days following our vote, and that recovery under the mechanism will begin with the first billing cycle of the following month. With the approval of these stipulations, the initial storm cost recovery factors shall be applied to PEF's cycle 1 billings beginning August 2005. Recovery will continue until the last cycle of July 2007. The parties have stipulated to the method to be used to allocate costs to the rate classes.

PEF's storm cost recovery factors shall be modified as described in the testimony of PEF witness Portuondo. PEF shall immediately file tariffs containing initial surcharge factors by rate class to be effective for cycle 1 meter readings for August 2005 and ending with the last cycle for December 2005. In conjunction with the adjustment clause filings for calendar year 2006, PEF shall file revised factors to be in effect for the period January through December of 2006. In conjunction with the adjustment clause filings for calendar year 2007, PEF shall file revised factors that will be in effect for the period January through July of 2007. Any over- or under-recovery remaining at the end of the period shall be refunded or recovered through the fuel adjustment clause. This methodology will insure the timely and accurate recovery of Commission-approved storm-related costs from PEF's customers.

As is true in any case, we maintain our authority to consider all matters relevant and germane to setting rates on a going-forward basis. If deemed appropriate, this could include a modification to the method for recovery of all or a portion of the storm restoration costs which are approved in this docket, in a subsequent rate, securitization, or other appropriate proceeding.

RATE DESIGN

Also at issue in this proceeding is the manner in which storm related costs are collected from the rate classes, which is commonly referred to as rate design. We do not address herein the manner in which costs are allocated to the rate classes, because the allocation method to be used was the subject of approved Category Two Stipulation, No. 1. PEF proposed a rate design that recovers storm costs on a per-kilowatt hour, or energy basis, from all of the rate classes. As stated in the rebuttal testimony of PEF witness Portuondo, this is the rate design that is used for all of PEF's existing recovery clauses.

In her testimony, FIPUG witness Brown advocates a rate design that would recover costs from demand-billed rate classes on a per-kilowatt basis, because most of the costs that PEF is seeking to recover are allocated to the rate classes on a demand basis. Demand-billed rate classes are those classes that bill customers based on both their energy usage, which is measured in kilowatt hours (kWh), and their maximum demand for the month, which is measured in kilowatts (kW). For PEF, these rate classes include the General Service – Demand (GSD), Curtailable (CS), and Interruptible (IS) rate schedules.

In her testimony, witness Brown develops per kW demand charges based on PEF's requested recovery and allocation of costs. However, as pointed out in the rebuttal testimony of PEF witness Portuondo, the charges do not appear to be correct because the rates are higher for transmission level metered customers than for primary and secondary distribution metered customers. In fact, higher level voltage customers should pay lower rates than lower voltage customers.

For the sake of simplicity in applying and calculating rates, we find that the per kW hour rate design proposed by PEF is adequate, and is approved. We have approved the same rate design in the capacity, environmental, and conservation cost recovery clauses, in which a substantial portion of the costs are allocated on a demand basis.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the stipulations proposed at the March 30, 2005 hearing are approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that Progress Energy Florida, Inc.'s Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc. is hereby denied. It is further

ORDERED that Progress Energy Florida, Inc., shall adjust future call center activity expenses charged to the storm reserve by the incremental difference of call load experience during and immediately after hurricanes with the actual prior 3-year average call load during the same time period involved. It is further

ORDERED that Progress Energy Florida, Inc., shall exclude future budgeted advertising and public relations expense from its storm damage reserve. It is further

ORDERED that based on the findings made herein, the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to true-up is $271,476,895 ($285,108,136 system). It is further

ORDERED that the Stipulation and Settlement, as approved in Order No. PSC-02-0655-AS-EI, shall not affect the amount or timing of recovery of incremental, prudently-incurred storm-related costs. It is further

ORDERED that Progress Energy Florida, Inc., shall be allowed to recover all reasonable and prudently incurred storm damage costs identified and approved herein. It is further

ORDERED that, based on the findings herein and the most recent commercial paper rate, the appropriate amount of storm-related costs to be recovered from the customers is $231,839,389. It is further

ORDERED that the appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery is to record the costs as a regulatory asset in a subaccount of Account 182.1, Extraordinary Property Losses. It is further

ORDERED that Progress Energy Florida, Inc., shall be allowed to charge interest at the applicable 30-day commercial paper rate on the unamortized balance of storm damage restoration costs permitted to be recovered from ratepayers. In addition, an adjustment shall be made in the calculation of interest to recognize the storm-related deferred taxes not included in the Company's upcoming rate case. It is further

ORDERED that a temporary surcharge is the appropriate mechanism for recovery of approved costs. It is further

ORDERED that Progress Energy Florida, Inc., shall immediately file tariffs containing initial surcharge factors by rate class to be effective for cycle 1 meter readings for August 2005 and ending with the last cycle for December 2005. In conjunction with the adjustment clause filings for calendar year 2006, PEF shall file revised factors to be in effect for the period January through December of 2006. In conjunction with the adjustment clause filings for calendar year 2007, PEF shall file revised factors that will be in effect for the period January through July of 2007. The surcharge factors shall be derived using updated kilowatt hour sales forecasts consistent with the three recovery periods, and shall reflect the storm-related costs, including any interest, approved herein for recovery. The two filings following the initial filing shall incorporate a true-up of estimates of costs and sales to actual costs and sales. Any over- or under-recovery remaining at the end of the period shall be refunded or recovered through the fuel adjustment clause. It is further

ORDERED that a per-kilowatt rate design shall be used by Progress Energy Florida, Inc., to recover storm-related costs from all rate classes. It is further

ORDERED that neither Progress Energy Florida, Inc.'s Study nor Order No. PSC-94-0852-FOF-EI are determinative as to this Commission's findings with respect to the costs to be appropriately charged to PEF's storm damage reserve. It is further

ORDERED that this docket shall remain open to address the true-up of the actual storm restoration costs. The docket should be closed administratively once staff has verified that the true-up is complete.

By ORDER of the Florida Public Service Commission this 14th day of July, 2005.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(SEAL)

JSB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

COMMISSIONERS:
BRAULIO L. BAEZ, CHAIRMAN
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
LISA POLAK EDGAR

STATE OF FLORIDA

DIVISION OF THE COMMISSION
CLERK AND ADMINISTRATIVE
SERVICES
CAPITAL CIRCLE OFFICE CENTER
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FL 32399-0850

Public Service Commission

August 12, 2005

Thomas D. Hall, Clerk
Supreme Court of Florida
Supreme Court Building
Tallahassee, Florida 32301

Re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc. (Docket No. 041272-EI)

Dear Mr. Hall:

Enclosed is a certified copy of a Notice of Administrative Appeal, filed in this office on August 12, 2005, on behalf of The Citizens of the State of Florida, through the Florida Office of Public Counsel. Also enclosed is a copy of Order No. PSC-05-0748-FOF-EI, the order on appeal.

It is our understanding that the index of record is due to be served on the parties to this proceeding on or before October 1, 2005.

Sincerely,

Marcia Sharma

Marcia Sharma,
Assistant Director

KF/mhl
Enclosure

cc: Joseph A. McGlothlin, Esquire
David Smith, Esquire
parties of record

ORIGINAL

TOM LEE
President

ALLAN BENSE
Speaker

STATE OF FLORIDA
OFFICE OF PUBLIC COUNSEL

c/o THE FLORIDA LEGISLATURE
111 WEST MADISON ST.
ROOM 812
TALLAHASSEE, FLORIDA 32399-1400
850-488-9330

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Harold McLean
Public Counsel

Joseph A. McGlothlin
Associate Public Counsel

August 12, 2005

RECEIVED-FPSC
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COMMISSION
CLERK

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

RE: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.; Docket No. 041272-EI

Dear Ms. Bayó:

Please find enclosed an original and two (2) copies of a Notice of Administrative Appeal for filing in the above-referenced docket.

Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

CMP _____
COM _____
CTR _____
ECR _____
GCL _____
OPC _____
RCA _____
SCR ~~JAM/~~dsb
SGA Enclosures
SEC 1
OTH Marquina

Sincerely,

Joe A. McGlothlin

Joseph A. McGlothlin
Associate Public Counsel

RECEIVED & FILED
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.	DOCKET NO. 041272-EI FILED: August 12, 2005

NOTICE OF ADMINISTRATIVE APPEAL

NOTICE is hereby given that the Citizens of the State of Florida, through the Florida Office of Public Counsel, appeal to the Florida Supreme Court Order No. PSC-05-0748-FOF-EI. The Order was rendered on July 14, 2005. As required by Rule 9.100(d) of the Florida Rules of Appellate Procedure, a conformed copy of Order No. PSC-05-0748-FOF-EI is attached to this notice.

The nature of the Order is a final order denying Progress Energy Florida's ("PEF") request for a storm "cost recovery clause" that would operate outside of base rates; interpreting a 2002 stipulation to which PEF and OPC were parties and concluding the provision prohibiting PEF from seeking to increase base rates unless its earned return on equity first fell below 10% is inapplicable to PEF's petition as a matter of law; granting in substantial part PEF's request for authority to collect from customers costs that PEF incurred to repair its electric system following the 2004 hurricane season; and authorizing PEF to implement a temporary surcharge on existing

A TRUE COPY
ATTEST Marcia Thomas
ASSISTANT DIRECTOR, DIVISION OF
COMMISSION CLERK AND
ADMINISTRATIVE SERVICES

base rates without requiring PEF to expense any portion of the identified costs against earnings for the period.

HAROLD MCLEAN
PUBLIC COUNSEL

Joseph A. McGlothlin
Associate Public Counsel
Florida Bar No. 163771

Office of Public Counsel
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400
(850) 488-9330
(850) 488-4491 FAX

Attorneys for the Citizens of
the State of Florida

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original and two copies of the foregoing NOTICE OF ADMINISTRATIVE APPEAL were filed with the Clerk of the Florida Public Service Commission, and a copy of said notice was hand delivered to the Clerk of the Florida Supreme Court and was served by U.S. Mail on the following on this the 12th day of August, 2005:

Richard D. Melson, General Counsel
Jennifer Brubaker, Esquire
Jennifer Rodan, Esquire
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

James Michael Walls, Esquire
John T. Burnett, Esquire
Carlton Fields Law Firm
Post Office Box 3239
Tampa, FL 33601-3239

John W. McWhirter, Esquire
McWhirter, Reeves,
Davidson & Arnold, P.A.
400 North Tampa Street
Tampa, Florida 33602

Timothy J. Perry, Esquire
McWhirter, Reeves,
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117 South Gadsden Street
Tallahassee, FL 32301

Michael B. Twomey, Esquire
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Tallahassee, FL 32314-5256

Robert Scheffel Wright, Esquire
Landers & Parsons, P.A.
310 West College Avenue
Tallahassee, FL 32301

Mr. Paul Lewis, Jr.
Progress Energy Florida, Inc.
106 East College Avenue, Suite 800
Tallahassee, FL 32301-7740

R. Alexander Glenn
Progress Energy Service Company, LLC
100 Central Avenue, Ste. 1D
St. Petersburg, FL 33701

Joseph A. McGlothlin
Associate Public Counsel

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.	DOCKET NO. 041272-EI ORDER NO. PSC-05-0748-FOF-EI ISSUED: July 14, 2005

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
LISA POLAK EDGAR

APPEARANCES

GARY SASSO, ESQUIRE, JAMES WALLS, ESQUIRE, and JOHN BURNETT, ESQUIRE, Carlton Fields Law Firm, Post Office Box 3239, Tampa, Florida 33601-3239, appearing on behalf of Progress Energy Florida, Inc.

JOHN W. MCWHIRTER, JR., ESQUIRE, McWhirter Reeves, 400 North Tampa Street, Suite 2450, Tampa, Florida 33601-3350, and TIM PERRY, ESQUIRE, McWhirter Law Firm, 117 S. Gadsden Street, Tallahassee, Florida 32301, appearing on behalf of Florida Industrial Power Users Group.

HAROLD MCLEAN, ESQUIRE, JOSEPH McGLOTHLIN, ESQUIRE, and PATRICIA CHRISTENSEN, ESQUIRE, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison St., Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Office of Public Counsel.

ROBERT SCHEFFEL WRIGHT, ESQUIRE, Landers & Parsons, P.A., 310 West College Avenue, Tallahassee, Florida 32302, appearing on behalf of the Florida Retail Federation.

MICHAEL B. TWOMEY, ESQUIRE, Post Office Box 5256, Tallahassee, Florida 32314-5256, appearing on behalf of Buddy Hansen, Sugarmill Woods Civic Association, Inc., and AARP.

JENNIFER BRUBAKER, ESQUIRE and JENNIFER RODAN, ESQUIRE, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission.

A TRUE COPY
ATTEST Marcia Sharma
ASSISTANT DIRECTOR, DIVISION OF
COMMISSION CLERK AND
ADMINISTRATIVE SERVICES

FINAL ORDER DECLINING TO ESTABLISH A STORM COST RECOVERY CLAUSE, AND APPROVING TEMPORARY SURCHARGE FOR 2004 STORM COST RECOVERY

BY THE COMMISSION:

BACKGROUND

This docket was opened on November 2, 2004, when Progress Energy Florida, Inc. ("PEF" or "Company") filed a Petition for implementation of a Storm Cost Recovery Clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan (Petition). PEF proposed that the requested clause would provide for the recovery of approximately $251.9 million plus interest over two years.

On March 15 through 17, 2005, we held customer service hearings in Ocala, Apopka, Bartow, St. Petersburg, and Clearwater. We also held a customer service hearing on the first day of our technical hearing in Tallahassee. A total of 49 individuals spoke at these service hearings for which most represented city/county governments (i.e. mayors, commissioners, school superintendents, emergency management officials, etc.), local civic associations, various local chamber of commerce representatives, a water and wastewater utility representative, and representatives of other privately-owned companies. For the most part, these individuals were highly complimentary towards PEF's hurricane restoration efforts.

We held an administrative hearing on March 30, 31, and April 1, 2005. The Office of Public Counsel (OPC), Florida Industrial Power Users Group (FIPUG), American Association of Retired Persons (AARP), Buddy L. Hansen and Sugarmill Woods Civic Association, Inc. (SMW), and Florida Retail Federation (FRF) intervened and participated in the proceeding.

As discussed in greater detail below, we are denying PEF's request to implement a storm cost recovery clause; rather, the storm costs approved for recovery shall be treated as a temporary surcharge. We have made a number of adjustments to the costs for which PEF is seeking recovery. In large part, these adjustments limit recovery to those incremental costs, reasonably and prudently incurred during PEF's 2004 hurricane restoration efforts, which were incurred over and above PEF's budgeted operation and maintenance (O&M) expenses. Based upon our findings, the appropriate amount of storm-related costs to be recovered from the customers is $231,839,389.

We have jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

APPROVED STIPULATIONS

At the hearing, we found that the stipulations reached by the parties and supported by staff on certain issues were reasonable. We hereby accept the stipulated matters as set forth below.

Category One Stipulations

Category One Stipulations are those for which PEF, FIPUG, OPC, AARP, SMW, FRF, and our staff agreed:

1. With respect to replacements of plant items associated with 2004 post-storm repair and restoration activities, the parties stipulate and agree that PEF shall book to plant in service the normal cost of new plant additions under normal operating conditions, and shall book to the storm reserve (as extraordinary O&M) only the costs of new plant additions that exceed those normal amounts. PEF stipulates and agrees to verify that it has implemented this methodology and to provide final values for the portions of costs associated with new plant additions that it has booked to plant in-service and to the storm damage reserve, respectively, after it has completed the booking of relevant costs. PEF's current estimate of costs that it will book to plant in service using this methodology is approximately $47 million dollars.

   This partial stipulation addresses only the appropriate accounting methodology to be employed for the accounting of costs associated with plant replacements, and does not prevent any party from challenging the reasonableness or prudence of any individual cost item. Further, the partial stipulation does not address the aspects of Issue 12 that treat retirements and cost of removal expense, which remain at issue.

2. The parties stipulate and agree that PEF shall charge to the storm damage reserve only the costs of those materials and supplies that PEF actually used during the 2004 post-storm repair and restoration activities, thereby excluding from the storm damage reserve any costs associated with replenishing supplies and inventories. PEF stipulates and agrees that it will verify that it has implemented this approach in a report submitted in this docket after it has completed the process of booking all storm-related costs.

   This stipulation addresses only the appropriate accounting methodology to be applied to costs of materials and supplies, and does not prevent any party from challenging the reasonableness or prudence of any individual cost.

3. The parties stipulate and agree as follows: (1) PEF shall accrue and collect interest on the amount of storm costs that the Commission authorizes PEF to collect from customers in this proceeding. (2) No interest shall accrue prior to the date on which the Commission's vote in this docket is rendered. (3) No interest shall accrue on any amount in excess of that which the Commission authorizes PEF to collect from customers. (4) If PEF collects from customers an amount greater than that authorized by the Commission, it shall refund the differential with interest. (5) PEF shall calculate interest by applying the 30-day commercial paper rate in the following manner: Using a 30-day Dealer Commercial Paper rate, as published in the Wall Street Journal, which is high-grade unsecured notes sold through dealers by major corporations.

4. The parties stipulate and agree that PEF shall collect the amount of storm-related costs that the Commission authorizes it to recover from customers over a maximum period of 2 years.

5. The parties stipulate and agree that the mechanism that the Commission approves for recovery of storm-related costs shall become effective 30 days following the date of the Commission's vote in this docket. Recovery shall begin with the first billing cycle of the following month.

6. The parties stipulate and agree that PEF shall file tariffs reflecting the establishment of any Commission-approved mechanism for the recovery of storm-related costs from the ratepayers.

Category Two Stipulations

Category Two Stipulations are those for which PEF, FIPUG, FRF, and our staff agreed, and for which OPC, AARP, and SMW took no position.

1. The methodology for allocation of storm recovery costs should be that which is proposed in PEF's petition.

EFFECT OF ORDER NO. PSC-02-0655-AS-EI

Background

We approved the Settlement of PEF's last rate case by Order No. PSC-02-0655-AS-EI, issued May 14, 2002, in Docket No. 000824-EI, In re: Review of Florida Power Corporation's earnings, including effects of proposed acquisition of Florida Power Corporation by Carolina Power & Light. Among other things, the Stipulation and Settlement agreement (Stipulation or Settlement) provided that PEF (formerly FPC) will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates, except as provided for in Section 9 of the Settlement regarding PEF's Hines Unit 2. The Settlement further provided that PEF will not petition for an increase in its base rates and charges, including interim rate increases, that would take effect prior to December 31, 2005. The Settlement does not explicitly address hurricane related costs. The pertinent sections are as follows:

> 4. No Stipulating Party will request, support, or seek to impose a change in the application of any provision hereof. The Stipulating Parties other than FPC will neither seek nor support any additional reduction in FPC's base rates and charges, including interim rate decreases, that would take effect prior to December 31, 2005 unless such reduction is initiated by FPC. FPC will not petition for an increase in its base rates and charges, including interim rate increases, that would take effect prior to December 31, 2005, except as provided in Section 7. ...
>
> 7. If FPC's retail base rate earnings fall below a 10% ROE as reported on an FPSC adjusted or pro-forma basis on an FPC monthly earnings surveillance report

> during the term of this Stipulation and Settlement, FPC may petition the Commission to amend its base rates notwithstanding the provisions of Section 4. The other Stipulating Parties are not precluded from participating in such a proceeding. This Stipulation and Settlement shall terminate upon the effective date of any Final Order issued in such proceeding that changes FPC's base rates.
> ...
>
> 12. ... FPC will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates, except as provided in Section 9.

Argument of the Parties

At issue is whether the Stipulation, approved by our Order No. PSC-02-0655-AS-EI, affects the amount or timing of storm-related costs that PEF can collect from customers pursuant to its petition in this docket; and, if so, what the impact on the amount or timing is. PEF contends that the Settlement has no bearing on PEF's petition to establish a storm recovery clause. The intervenors assert that the request to establish a storm recovery clause is an attempt to circumvent the terms of the Settlement, and that PEF should realize no recovery of its 2004 storm costs from customers until its return on equity has fallen to 10%.

In support of its position, PEF argues that the Settlement provides that PEF will not petition for an increase in its base rates and charges that would take effect prior to December 31, 2005; further, PEF is allowed to petition this Commission to amend its base rates if its retail base earnings fall below a 10% ROE. PEF contends that its petition to establish a storm cost recovery clause does not involve an increase in base rates and charges, and that the storm-related costs that PEF seeks to recover under a Storm Cost Recovery Clause were not and cannot be included in a base rate proceeding. PEF contends that the costs of severe storms like the 2004 hurricanes are too volatile, irregular in their occurrence, and unpredictable to be addressed in base rates. Rather, base rates are set to defray other, normal recurring costs of running the utility. PEF contends that the intervenors' witnesses all agreed that the 2004 hurricanes and the costs incurred by PEF were unprecedented in nature and that the hurricane costs were volatile and unpredictable, and that PEF's base rates did not include the 2004 hurricane costs. PEF argues that the Settlement, which settled a base rate proceeding, is inapplicable to the Company's Petition for recovery of its 2004 hurricane costs. PEF contends that is untenable and unfair for intervenors to suggest that PEF must use its base rate revenues to absorb all or part of the costs of volatile, non-recurring expenses that base rates were never intended to recover in the first place.

PEF also contends that we should reject the intervenors' arguments that the Company should share the 2004 hurricane-related costs with its customers by applying its earnings toward those costs, suggesting the 10% ROE figure in the Company's Stipulation is, in any event, a fair and reasonable way to allocate the Company's storm-related costs. PEF believes that this construction of the Settlement is inaccurate. PEF argues that Rule 25-6.0143(4)(c), Florida Administrative Code, which governs the Storm Damage Reserve, requires that "each and every loss or cost which is covered by the account shall be charged to that account and shall not be

charged directly to expenses. Charges shall be made to accumulated provision accounts regardless of the balance in those accounts." PEF asserts that it would thus be precluded from expensing storm-related costs in 2004 to the point that the Company's return is limited to a 10% ROE without obtaining a waiver of the Rule by the Commission. PEF contends that in urging us to force PEF to divert its base rates and revenues to cover these expenses, the Intervenors are seeking an additional reduction in PEF's base rates in violation of Paragraph 4 of the Settlement. Further, PEF asserts that it is unfair and inconsistent with sound regulatory policy to reduce PEF's earnings to the "bottom line" when "the evidence demonstrates that PEF's performance during the 2004 hurricanes was everything the Commission and customers should want a utility to do and more."

In support of its position, OPC argues that PEF's request for a storm cost recovery clause is an attempt by PEF to evade its obligations under the Settlement. PEF notes that we denied a request by Florida Power & Light Company to establish a similar clause in 1993, by Order No. PSC-93-0918-FOF-EI, issued June 17, 1993, in Docket No. 930405-EI, In re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase annual contribution to storm and property insurance reserve fund by Florida Power & Light Company. OPC contends that PEF's request in the instant docket should likewise be denied as an unsuitable mechanism, stating that PEF's attempt to create a clause now can not alter the fact that, at the time of the Settlement, the parties did not provide for storm cost treatment in any way other than through base rates. OPC supports its argument that PEF's request is not a true clause in that a legitimate cost recovery clause is perpetual in nature, and PEF's proposal would terminate after two years. Further, a true clause is not confined to the cost of a specific event, and PEF's proposal is to collect $252 million, which it quantifies as the cost of specific storm events, over a specific time frame.

OPC also contends that PEF has incorrectly asserted that the 10% trigger applies only to an unanticipated reduction in revenues, as opposed to an increase in costs, noting that, during the hearing, PEF witness Portuondo asserted that the parties to the Settlement intended the 10% return on equity threshold to apply only in the event PEF miscalculated revenues. OPC states that Mr. Portuondo admitted during cross-examination that the Settlement does not contain any distinction between reductions in earnings caused by increased costs as opposed to reductions in earnings caused by lower revenues. OPC contends that the language of the Settlement does not imply or even remotely suggest the existence of such a distinction, and that PEF instead has come up with an after-the-fact interpretation that impermissibly opposes the clear language of the Settlement.

In summary, OPC posits that PEF can neither circumvent the 10% ROE provision of the Settlement by requesting a cost recovery clause, nor rewrite the Settlement's terms by asserting that only reduced revenues can trigger the 10% provision. OPC contends that PEF must be held to the clear, plain confines of the Settlement; and that circumstances have not changed in a way that would present a basis in which we could modify PEF's obligation.

In support of its position, FIPUG also asserts that the proposed creation of a storm cost recovery clause "is nothing more than an attempt to do an end run around [PEF's] Stipulation and Settlement and to do it in a manner that is contrary to past Commission practice." FIPUG

alleges that PEF has rejected the historic base rate approach to recovering storm costs because it would otherwise lose excessive 2004 profits, because PEF agreed in the Settlement that it would not seek a base rate increase unless the after-tax return on equity falls below 10%.

FIPUG contends that our orders and rule on the storm reserve clearly demonstrate that storm damage expenses are part of base rates. For instance, in Order No. PSC-03-0918-FOF-EI, which established the storm damage reserve for FPL, we acknowledged that hurricane-related expenses were included in base rates and, therefore, declined to create a 100% pass-through mechanism such as the clause PEF proposes in this case. In Order No. PSC-93-1522-FOF-EI, which approved the creation of a storm reserve fund for PEF, we noted that PEF was collecting for transmission and distribution property damage in its base rates. In addition, Rule 25-6.0143, Florida Administrative Code, governs the treatment of storm-related costs, and provides that balances in these storm accounts are to be evaluated at the time of a rate proceeding and adjusted as necessary, while permitting a utility to petition for a change in the provision level and accrual rate outside of a rate proceeding.

FIPUG contends that we have at our disposal several methodologies for dealing with PEF's storm damages that are consistent with the terms of the Settlement. FIPUG recommends that PEF should bear all storm expenses to the point that its earnings fall to a 10% ROE, with the remainder being borne by the ratepayers. In recognition that this is a base rate case, instead of using a cost recovery clause to collect the storm damage costs, we should use a temporary adjustment to base rates by creating a storm damage base rate rider to allow recovery of the ratepayers fair share of the costs over a two year period. FIPUG believes that this approach comports with the action we've taken in the past whereby PEF and Gulf Power Company have applied excess earnings to reduce storm damage expense. In addition, FIPUG also recommends a variation on the risk-sharing approach: for 2004, we should require PEF to book the amount of storm damage expense to bring its after tax return on equity to 10%. In 2005, we should allow that return to increase to the 12.5% return authorized in 1994, with excess earnings applied to reduce the storm damage costs. Then, for 2006, PEF would be allowed to earn the return that we find to be proper in the pending rate case, Docket 050078-EI.

SMW contends that the Settlement prohibits PEF from recovering any storm costs from its customers until its return on equity falls to 10%. SMW believes that not only does the 10% equity return "floor" in the Settlement provide a minimal fair return on equity for use in determining the shareholders' share of costs to be borne, such a 10% equity return is more than fair in the current market. SMW's primary position is that the storm expense incurred by PEF should be amortized over an appropriate time period and that there should be no surcharge to customers. However, SMW contends that if there is a surcharge, then the amount of the recovery should be determined, not based on the amount that PEF spent, but the amount of storm cost recovery expenses that remain after PEF's shareholders absorbed costs sufficient to bring its earnings to the minimum of a fair rate of return on equity, which, pursuant to the Settlement Agreement, is 10%.

FRF contends that the Settlement requires PEF to defray storm-related costs from earnings to the point that its return on equity has fallen to 10%. FRF further asserts that PEF's request to establish a storm cost recovery clause would violate the Settlement, and that PEF

seeks to charge rates that require its captive customers to bear effectively all of the risks and all of costs incurred due to the 2004 storms while preserving for itself a ROE of approximately 13.5%, approximately 350 basis points above the ROE that PEF agreed to in the Settlement and similarly far above any reasonable ROE under current market conditions. FRF contends that we must ensure that PEF's rates, considered in their totality, are fair, just, and reasonable. In this case, FRF believes that this requires that PEF's earnings and its achieved rate of ROE be taken into account and, accordingly, that any storm surcharge we approve should allow PEF to earn a 10% after-tax ROE for 2004 and 2005, as required by the Settlement.

FRF states that storm-related expenses typically are, and have historically been, recovered through changes in base rates, but in this case, such base rate changes are limited due to the Settlement. FRF agrees that PEF has the right to seek base rate relief to get its base rates to a level that would provide PEF with the opportunity to earn a rate of return on equity of 10.0%, consistent with the Settlement. FRF believes that a 10% after-tax ROE is fair to PEF within the terms of the 2002 Stipulation, and it is generous relative to current market conditions.

Order No. PSC-02-0655-AS-EI Does Not Affect Storm Cost Recovery

Over a six week period in 2004, PEF's service area was struck by four hurricanes, during which time PEF experienced over two million cumulative customer outages, and a company-estimated $366 million in storm-related costs. At hearing, all of the intervenors' witnesses agreed that four hurricanes in Florida over one year's time was an unprecedented event. OPC witness Majoros did not dispute that the 2004 hurricane season caused severe damage to the company's transmission and distribution system, and SMW witness Stewart agreed that the storm-related costs that PEF incurred in 2004 as a result of the four hurricanes were also unprecedented. PEF contends that, as even OPC's witness agreed, the job of preparing for, responding to, and recovering from four hurricanes in 2004 was a massive undertaking, requiring thousands of PEF employees and outside workers unfamiliar with PEF's accounting methods focusing all of their efforts on restoring service as quickly and safely as possible.

PEF has a Storm Damage Reserve for O&M expenses associated with storm damage which customers support through base rates; at the end of 2004 the value of the Reserve was $46.9 million. PEF's Storm Damage Reserve was established by Order No. PSC-93-1522-FOF-EI, issued October 15, 1993, in Docket No. 930867-EI, In re: Petition of Florida Power Corporation for authorization to implement a self-insurance program for storm damage to its T&D Lines and to increase annual storm damage expenses. At that time, PEF had been collecting $1 million annually in base rates for transmission and distribution (T&D) property damage, with a company estimate that $3 million would be adequate to begin rebuilding a storm damage reserve, based on the 20-year history of actual storm damage incurred by the Company. The reserve's annual accrual amount was raised to $6 million annually by Order No. PSC-94-0852-FOF-EI, issued July 13, 1994, in Docket Nos. 940621-EI, In re: Investigation into Currently Authorized Return on Equity and Earnings of Florida Power Corporation, and 930867-EI, In re: Petition for Authorization to Implement a Self-Insurance Program for Storm Damage to its Transmission and Distribution (T&D) Lines and to Increase Annual Storm Damage Expense by Florida Power Corporation.

Both FIPUG and SMW's witnesses testified that PEF's base rates are not set to cover the costs of hurricanes like those experienced in 2004. PEF witness Portuondo testified that it would be neither practical nor cost-effective to provide coverage for all storm-related costs the Company might experience. Mr. Portuondo further testified that:

> The Storm Damage Reserve is intended to address the likely level of storm costs that might result from study findings that 53% of the storms simulated a total cost of less than $5 million and the probability of a storm occurrence is only 23.3% a year. The annual accruals to the Reserve were not designed to cover costs of potentially catastrophic hurricane seasons because the Company's studies that provided the basis for these accruals have shown a low probability that the most severe storms or series of storms would severely impact its service territory.... When considering these studies in the early to mid-1990's, it was the Commission's considered judgment to avoid collecting from customers the significant additional reserves that would be needed to cover the costs of catastrophic storms that were unlikely to occur. Instead, the Commission decided to provide utilities the opportunity to seek recovery of the costs associated with catastrophic storms if and when the need might arise. As we are all too aware, the hurricane season of 2004 has presented that need.

We note in particular language in Order No. PSC-93-1522-FOF-EI, in which we stated that:

> [FPC] proposes that, in the event that actual experience from storm damage exceeds the reserve balance at any given point in time, the excess costs should be deferred through the creation of a regulatory asset to be recovered from the customers over a five year period through a mechanism to be determined by this Commission.
>
> This Commission already has a rule in place to govern the use of Account 228.1, Accumulated Provision for Property Insurance. Rule 25-6.0143(4)(b), Florida Administrative Code, provides that, "...each and every loss or cost which is covered by the account shall be charged to that account and shall not be charged directly to expenses. Charges shall be made to accumulated provision accounts regardless of the balance in those accounts."
>
> If FPC experiences significant storm related damage, it can petition for appropriate regulatory action. In the past, this Commission has allowed recovery of prudent expenses and has allowed amortization of storm damage expense. Extraordinary events such as hurricanes have not caused utilities to earn less than a fair rate of return. FPC shall be allowed to defer storm damage loss over the amount in the reserve until we act on any petition filed by the company.
>
> No prior approval will be given for the recovery of costs to repair and restore T&D facilities in excess of the Reserve balance. However, we will expeditiously

review any petition for deferral, amortization or recovery of prudently incurred costs in excess of the reserve.

Id. at 4-5 (Emphasis added).

The intervenors contend that PEF's request to establish a storm cost recovery clause is inappropriate, and for various reasons, runs contrary to the terms of the Settlement which was approved in Order No. PSC-02-0655-AS-EI. As discussed subsequently, we agree that a storm cost recovery clause is not the most appropriate vehicle to collect the amount of any storm-related costs which we authorize herein for recovery. The Intervenors also contend that PEF can not request recovery of its storm-related costs until such time as its retail base rate earnings fall below a 10% ROE, as provided in Section 7 of the Settlement. As addressed here and subsequently in this Order, we do not agree with this assessment.

Neither PEF nor the intervenors could have reasonably foreseen that the outcome of the 2004 hurricane season, and the damages and costs incurred by the utility, would be on an order of magnitude above anything that PEF, or its customers, had previously experienced. PEF incurred incremental costs which were not budgeted nor accounted for through base rates. Indeed, the record evidence suggests it would have been imprudent to require PEF's customers to fund in advance the substantial additional reserves that would be needed to cover the costs of catastrophic storms, which, statistically speaking, were unlikely to occur. At its current level, PEF's storm reserve will cover only a fraction of the expenses incurred by the company to restore service to its customers and repair its T&D facilities damaged by the hurricanes. By Order No. PSC-93-1522-FOF-EI, we contemplated that relief could be made available for a utility which has experienced such extraordinary expenditures, subject to a review of the prudency of those costs.

The Settlement provides that PEF will not petition for an increase in its base rates and charges during the term of the Settlement, and that PEF will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates. Certainly, the recovery of typical storm damages has historically been addressed through the storm reserve and has been budgeted for and recovered through base rates. However, the magnitude of the damages and costs associated with the 2004 hurricane season were unprecedented and extraordinary in nature. Given this extraordinary nature, we do not believe that the incremental costs associated with the 2004 hurricanes constitute a base rate item, such as would be addressed by the Settlement. Recovery of these incremental, prudently-incurred hurricane costs is distinguishable from the types of increases in base rates that is contemplated by the Settlement. Further, PEF is not seeking recovery for capital items which would be barred by Section 12 of the Settlement. The Settlement neither expressly permits nor expressly prohibits the recovery of these extraordinary costs; rather, the Settlement simply does not address the treatment of costs of this unprecedented nature and magnitude. It would be unfair to read the Settlement as barring the recovery of prudently-incurred, extraordinary restoration costs. These are not typical expenses which have been accounted for in base rates. Therefore, we find that neither the Settlement nor Order No. PSC-02-0655-AS-EI should affect the amount or timing of recovery of incremental storm-related costs.

Even if the Settlement were to be read as addressing the incremental costs at issue in this proceeding, in light of the extraordinary circumstances of the 2004 hurricane season and the extent of storm damages incurred by PEF, we would have the discretion to exercise our authority in the public interest to address the costs which are at issue in this proceeding. We have a longstanding commitment to support and encourage negotiated settlements. Further, the principle of administrative finality assures that there will be a terminal point in proceedings at which the parties and the public may rely on an agency's decision as being final and dispositive of the rights and issues involved therein. See Peoples Gas System, Inc. v. Mason, 187 So. 2d 335 (Fla. 1966) (the inherent authority of the Commission to modify its final orders is a limited one).

However, we are also charged to act in the public interest. Assuming for the sake of argument that PEF's proposal were inconsistent with Order No. PSC-02-0655-AS-EI (approving the Settlement), our obligation to act in the public interest nevertheless authorizes us to revisit that Order, should circumstances require it. For example, in Peoples Gas System, supra, the Florida Supreme Court vacated a Commission Order which modified its previous approval of a territorial service agreement. In support of its decision, the Court stated that the vacated order was not entered on rehearing or reconsideration as permitted by our rules of procedure, it was entered more than four years after the entry of the order which it purported to modify, and it was not based on any change in circumstances or on any demonstrated public need or interest. The Court also recognized, however, the differences between the functions and orders of courts and those of administrative agencies, particularly those regulatory agencies which exercise a continuing supervisory jurisdiction over the persons and activities regulated, and which are usually concerned with deciding issues according to a public interest that often changes with shifting circumstances and passage of time. Id. at 339. The Court noted that pursuant to Sections 366.03, 366.04, 366.05, 366.06, and 366.07, Florida Statutes, the legislature has given this Commission broad powers to regulate the operation of electric utilities. Id. Furthermore:

> Nor can there be any doubt that the Commission may withdraw or modify its approval of a service area agreement, or other order, in proper proceedings initiated by it, a party to the agreement, or even an interested member of the public. However, this power may only be exercised after proper notice and hearing, and upon a specific finding based on adequate proof that such modification or withdrawal of approval is necessary in the public interest because of changed conditions or other circumstances not present in the proceedings which led to the order being modified. This view accords requisite finality to orders of the Commission, while still affording the Commission ample authority to act in the public's interest.

Id. at 339-340.

Even if the Settlement were read as prohibiting the recovery PEF seeks in its petition, the evidence adduced in this case demonstrates that the circumstances surrounding the 2004 hurricane season – and the resulting costs incurred by PEF – were unprecedented, and truly extraordinary in nature. At discussed above, PEF's current storm reserve will cover only a fraction of the expenses incurred by the company to restore service to its customers and repair its

T&D facilities damaged by the hurricanes. By Order No. PSC-93-1522-FOF-EI, we contemplated that relief could be made available for a utility which has experienced such extraordinary expenditures, subject to a review of the prudency of those costs.

Neither PEF nor the intervenors could have reasonably foreseen that the outcome of the 2004 hurricane season, and the extraordinary damages and costs incurred by the utility. The facts in this case demonstrate a profound change in circumstances from those under which the Settlement was originally entered and approved. It would be unfair for the utility to be foreclosed from recovering its prudent restoration costs under these circumstances. Our mandate to act in the public interest requires us to balance the interests of both the utilities we regulate and those of the customers. As noted in Peoples Gas System, we have a continuing supervisory jurisdiction over the persons and activities we regulate, and must decide issues according to a public interest that often changes with shifting circumstances and passage of time. Were a determination to be made that the Settlement addresses the costs at issue in this case, in light of the extraordinary circumstances of the 2004 hurricane season and the extent of storm damages and costs incurred by PEF, we would have the discretion to exercise our authority in the public interest to address the costs which are at issue in this proceeding.

DECLINING TO APPORTION COSTS

The Company has proposed that it be allowed to recover all direct costs associated with its storm damage restoration efforts. The intervenors to this docket recommend that we first require PEF to expense that portion of storm damage restoration costs necessary to take the Company's 2004 earned return on equity (ROE) to 10% before allowing PEF to recover the remaining balance of reasonable and prudently incurred storm-related costs. Based on PEF's December 2004 Earnings Surveillance Report, the Company would have to record approximately $113.2 million in additional expenses to reach an ROE of 10.0%.

As discussed above, we find that the Stipulation approved in Order No. PSC-02-0655-AS-EI should not affect the amount or timing of the storm-related costs that PEF can collect from its ratepayers. We expressly stated in Order No. PSC-93-0918-FOF-EI that a regulated company was free to consider a variety of options in the event it petitions for recovery of prudently incurred costs in excess of its storm damage reserve "depending on what the circumstances are at the time."

The intervenors argue that if the Stipulation does not apply in this case to limit PEF's recovery, we should nevertheless apply by analogy some of the principles underlying that Stipulation. In particular, the intervenors contend that PEF should be allowed to recover storm damage restoration costs only to the extent that such costs, if expensed in 2004, would reduce its 2004 earnings below the 10% threshold contained in Section 7 of the Stipulation. All intervenors agree that the total amount of storm damage restoration costs incurred as a result of the 2004 hurricane season, if expensed in 2004, would take PEF's earned ROE below that 10% threshold, such that partial recovery of those costs should be permitted.

We find that it is not appropriate to apply the 10% ROE threshold in the manner advocated by the intervenors. While Section 7 of the Stipulation specifies that PEF may petition for a rate increase only in the event its base rate earnings fall below a 10% ROE, the Stipulation is silent with respect to what return level the Company may be brought back to as a result of its requested rate relief. Moreover, Section 3 of the Stipulation states that "[e]ffective on the Implementation Date, FPC will no longer have an authorized Return on Equity (ROE) range for the purpose of addressing earnings levels, and the revenue sharing mechanism herein described will be the appropriate and exclusive mechanism to address earnings levels." Because PEF does not have an ROE range during the term of the Stipulation, the Company is arguably within its right to petition for recovery of all reasonable and prudently incurred storm-related costs to maintain the return it was otherwise entitled to earn.

We are not convinced that any sharing is appropriate under the circumstances of this case. Consequently, we find it reasonable that PEF shall be permitted to recover from its ratepayers the full amount of the reasonable and prudently incurred storm damage restoration costs as approved herein, without regard to the effect of that recovery on PEF's return on equity.

However, as the intervenor witnesses in this docket have testified, making the ratepayers responsible for the Company's recovery of all reasonable and prudently incurred storm damage restoration costs insulates investors from this risk. We have recognized that cost recovery clauses, such as the storm cost recovery clause proposed by the Company in this docket, have reduced investor risk.

> Each time we approve a clause for the recovery of utility expenses or capital costs, the overall volatility of the utility's earnings before interest and taxes (EBIT) is reduced. This has the effect of reducing business risk. This reduced business risk should then result in a lower average cost of capital (required rate of return) over the long run. While it can be argued that currently authorized ROEs may not reflect the reduced risk resulting from the guaranteed recovery of prudently incurred environmental costs, ROEs set prospectively should reflect this reduced risk.

Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI, In Re: Petition to Establish an Environmental Cost Recovery Clause Pursuant to Section 366.0825, Florida Statutes, by Gulf Power Company, page 14.

PEF witness Portuondo testified that the Company's petition specifically seeks recovery of storm damage restoration costs through a "Storm Cost Recovery Clause." Absent a similar form of statutory authority as is afforded by Section 366.0825, Florida Statutes, PEF's request for a storm cost recovery clause in the instant docket appears analogous to Gulf Power Company's request for an environmental cost recovery clause. This reduced risk exists whether the recovery mechanism is a cost recovery clause or a surcharge.

The requested treatment for the recovery of storm damage restoration costs appears to be more favorable to PEF than the treatment afforded its affiliated utility, Progress Energy

Carolinas (PEC). Witness Portuondo conceded that the regulatory framework in North and South Carolina did not permit PEC to implement a surcharge for the recovery of storm damage restoration costs associated with Hurricanes Ivan and Isabel and the unnamed ice storms that caused significant damage in its service territory. Instead, PEC was required to amortize these costs. To the extent the Company's request for a storm cost recovery is approved, this treatment sends a signal to investors and the market that even in the face of the extensive damage wrought by the "catastrophic and unprecedented" hurricane season of 2004, we continue to be supportive of the financial integrity of PEF and, by extension, the long-run best interests of its ratepayers.

Consistent with our finding in Order No. PSC-94-0044-FOF-EI and the testimony in the record, to the extent that all prudent and reasonable costs associated with storm damage restoration are borne by the ratepayers irrespective of the Company's earnings, investors are exposed to less risk on a going-forward basis. The fact that ratepayers, not shareholders, bear the risk of storm damage cost recovery shall be taken into account in the determination of the Company's investor-required ROE in its next base rate proceeding.

EFFECT OF PEF'S STUDY AND ORDER NO. PSC-94-0852-FOF-EI

Background

By Order No. PSC-93-1522-FOF-EI, we authorized PEF (formerly FPC) to implement a self insurance approach for the costs of repairing and restoring its transmission and distribution systems in the event of hurricane, storm damage or other natural disaster through annual contributions to its storm reserve. In addition, we required PEF to prepare and submit a study evaluating the amount that should be annually accrued to the reserve. The Order further specified at page 4 that:

> FPC's study shall provide information concerning the treatment of T&D damages under its existing policy, a listing of the type of storm-related expenses FPC intends to draw from the reserve fund, and what type of accounting entries will be made for each item.

Pursuant to Order No. PSC-93-1522-FOF-EI, PEF filed its Study in February 1994. By Order No. PSC-94-0852-FOF-EI, we approved a proposal by PEF wherein it agreed to cap its 1994 earnings at a 12.50% ROE, to apply any overearnings to first accelerate the Sebring going concern value and then increase the storm damage accrual, and to permanently increase its storm damage accrual from $3,000,000 to $6,000,000 annually, effective January 1, 1994. The Order stated at page 2 that:

> The appropriate storm damage accrual level is currently under review in Docket No. 930867-EI. A study has been submitted in that docket and our review of that study indicates that an increase above the current $3,000,000 annual accrual is needed. Accordingly, we find that FPC's proposal to permanently increase its storm damage accrual is reasonable and hereby approve the proposal.

This constitutes the sole reference to the Study in Order No. PSC-94-0852-FOF-EI.

Argument of the Parties

At issue is whether, by Order No. PSC-94-0852-FOF-EI, we approved the methodology proposed in PEF's Study concerning the types of costs to be charged to the storm reserve and, in turn, whether our decisions in this docket are limited to determining whether PEF complied with that methodology. PEF's Study proposed a replacement or actual restoration cost approach to determine the storm-related costs charged to the storm reserve; specifically, that the costs of the actual repair activities and those activities directly associated with storm damage and restoration activities would be charged to the reserve. The intervenors contend that we never approved PEF's methodology, and that the correct accrual method is to charge to the storm reserve only those incremental costs incurred over and above PEF's budgeted O&M.

PEF argues that by Order No. PSC-94-0852-FOF-EI, we approved use of PEF's "replacement cost" methodology recommended in the Study, and that a new standard cannot be applied retroactively. Each of the Intervenors takes the position that the Study and Order No. PSC-94-0852-FOF-EI are not legally dispositive of our decisions in this docket concerning what costs are appropriately charged to the storm reserve.

In support of its position, PEF asserts that, pursuant to the Study, it proposed a self-insurance program for T&D storm damage that replicated the operation of third-party insurance. PEF contends that it replicated its prior, third-party T&D insurance methodology by accounting for all direct costs incurred to prepare for, respond to, and recover from the 2004 hurricanes. PEF further states that when this methodology is applied in the self-insurance program, PEF's customers, rather than the third-party insurance company, are responsible for all direct costs incurred during the 2004 hurricanes.

PEF contends that, by Order No. PSC-94-0852-FOF-EI, we specifically considered how to account for storm-related expenses, and also evaluated, accepted, and approved the Study's accounting for storm-related costs and the accrual to the storm damage reserves. PEF asserts that it has applied the methodology for accounting for storm-related costs set forth in its Study for ten years through nine hurricanes and major storms before the 2004 hurricanes without any objection, that we approved this methodology, and that it represents sound regulatory policy. PEF contends that, based on a review of the Study, we had to be aware of the types of costs that PEF would charge to the storm reserve for collection when we accepted the accrual amount in the Study. PEF argues that at no prior time was any question raised about its accounting for storm-related costs, and that to change its method for doing so now is unfair and improper retroactive ratemaking.

In its brief, PEF cites extensively in support of its position to a similar Study which we required Florida Power & Light Company (FPL) to file, which was to address the appropriate amount to be contributed annually to FPL's storm reserve; and the types of costs that FPL intended to charge to its storm reserve. See Order No. PSC-93-0918-FOF-EI (FPL's study, once filed, was addressed in Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, in Docket

No. 930405-EI.) Both PEF and FPL's studies advocate the actual restoration cost approach, without adjustment, with respect to what costs should be charged to the reserve. PEF contends that in Order No. PSC-95-0264-FOF-EI (and in subsequent Order No. PSC-95-1588-FOF-EI, issued December 27, 1995, in Docket 951167-EI, which increased the storm reserve accrual after Hurricane Andrew), we "found the storm damage study submitted by FPL to be adequate;" thus, a similar finding should be read with respect to PEF's Study.

In support of its position, OPC first contends that a separate basis exists for concluding the Study is not dispositive of the appropriate choice of accounting methodology in this docket. In its study, PEF justified the choice of the "replacement cost" methodology with this statement:

> However, the Company believes its insurance program will continue to be a combination of traditional insurance coverage along with some level of self insurance. Any requirement to use an approach other than replacement cost would place undue administrative burden on the Company which would presumably occur at a time when Company efforts would need to be dedicated to restoration of service and related activities.

OPC contends that the only support provided by PEF lies in the claim that maintaining two sets of books – one for insurance claims and another for regulatory purposes – would amount to an administrative burden. OPC cites PEF witness Portuondo as agreeing with this assessment of the study, which confirms that PEF currently has no commercial insurance on transmission and distribution assets. With respect to those categories of plant, OPC contends that the premise of the Study is wholly invalid.

OPC also criticizes PEF's reliance on FPL's study, stating that, like the PEF Study, the principal justification offered by FPL was to avoid the burdens associated with employing two separate accounting methodologies. OPC contends that FPL purported that its total restoration cost was less expensive than an incremental methodology. However, OPC states that this assertion was entirely dependent on treating lost revenues as a cost. Once lost revenues are removed from the equation, the same exercise shows FPL's method to be more expensive than the incremental approach.

In support of its position, FIPUG agrees that PEF disclosed in its Study the method it would use to book costs to the storm damage reserve. Essentially, at that time PEF said costs attributable to the storm would be booked to the storm reserve. However, FIPUG contends that few would realize that the utility meant to include normal costs as storm expense as well as incremental costs the storm brought on. FIPUG notes that since the Study was filed there has never been a docketed proceeding where the methodology that PEF uses to charge costs to the storm damage reserve has been addressed. FIPUG contends that the Study was conducted with base rates in mind, and that in the instant docket, PEF is asking for a guaranteed cost recovery mechanism that is something entirely different. FIPUG asserts that a base rate proceeding enables us to not only examine the prudency of the costs charged, but it also can eliminate "double dipping," related storm costs to an excess depreciation reserve and implement some form of cost sharing by restricting the utility's return.

PEF Study and Order No. PSC-94-0852-FOF-EI Are Not Determinative

Order No. PSC-94-0852-FOF-EI was not intended to approve the methodology proposed in PEF's Study as the standard by which we must determine which costs are appropriately charged to PEF's storm damage reserve. A review of the Order itself, and a review of our other orders, strongly indicate that we did not intend approval for the purpose asserted by PEF in this proceeding.

PEF's request to self-insure was approved by Order No. PSC-93-1522-FOF-EI. That Order required PEF to file the Study for the express purpose of "evaluating the amount that should be annually accrued to the reserve." Order PSC-94-0852-FOF-EI is titled as follows: "Notice of Proposed Agency Action Order Establishing Earnings Cap for 1994, Accelerating Amortization, and Increasing Storm Damage Reserve." The Order itself does not does not remark upon the prudency of, or in any way reference, the methodology PEF recommends with respect to accruing costs to the storm reserve. The Order does not in fact mention the Study at all, except only to state that "[a] study has been submitted in that docket and our review of that study indicates that an increase above the current $3,000,000 annual accrual is needed." Id. at 2. As its title indicates, the Order addresses PEF's proposal to offset any overearnings for 1994 by accelerating amortization on the Sebring going concern value and then by increasing the storm damage accrual, and increasing the storm reserve accrual to $6,000,000 annually.

PEF's reliance on our treatment of FPL's study is misplaced. There is currently an issue as to the legal effect, if any, of FPL's 1993 storm cost study and Order No. PSC-95-0264-FOF-EI have on the decisions to be made in Docket No. 041291-EI. Without prejudicing the determinations to be made in that docket, we note that while we found the FPL study sufficient to indicate the appropriate annual amount to be contributed to FPL's storm reserve, we did not approve the $7.1 million annual accrual proposed in the study. Order No. PSC-95-0264-FOF-EI at p. 4. Further, with respect to the types of costs to be charged to the storm reserve, we did not expressly approve the methodology proposed in FPL's study and made no finding that the methodology was reasonable or appropriate, or was otherwise approved as the continuing standard for charging costs to the storm damage reserve. Finally, we concluded Order No. PSC-95-0264-FOF-EI by finding only that the Study was "adequate." Id. at 6. Not even this at-best highly generalized finding was made in Order No. PSC-94-0852-FOF-EI regarding PEF's Study.

In this context, the only finding that can reasonably be made from Order No. PSC-94-0852-FOF-EI regarding PEF's study is that it indicated that an increase above the then-current $3,000,000 annual accrual was needed, which is precisely – and exclusively – what that Order has to say about the Study. Construing the Order as proposed by PEF – as approving PEF's proposed methodology – requires going beyond the language and findings in the Order.

This view of Order PSC-94-0852-FOF-EI is consistent with our other orders addressing the same issue with respect to the other three large investor-owned electric utilities in Florida. In

particular, in Order No. PSC-95-0255-FOF-EI ("TECO Order")[1], issued approximately one year after Order No. PSC-94-0852-FOF-EI, we addressed the exact same issue with respect to TECO. In that Order, which was entitled "Notice of Proposed Agency Action Order Approving Storm Damage Study," we specifically found that the replacement cost approach proposed in a study submitted by TECO was "a reasonable methodology for determining the appropriate amounts to be charged to the storm damage reserve." We noted that TECO's proposed approach was consistent with the provisions of TECO's prior insurance coverage. Despite having made a specific finding that TECO's proposed approach was reasonable – a finding notably absent from Order No. PSC-94-0852-FOF-EI – we went on to explain the extent of its authority to review costs charged to TECO's storm damage reserve:

> While we sympathize with Staff's concerns regarding the appropriateness of particular proposed expenses listed by TECO, it is our understanding that this list is merely setting forth examples of expenses that the utility may wish to charge against storm damage reserves. The list is a general guideline of categories to be recovered; it is neither all inclusive or exclusive. Because of the unpredictable nature of any given storm, it seems premature to make a determination of the prudency of any particular charge at this time. In the event of a storm, the utility will bear the burden of showing that specific charges against reserves are prudent and reasonable. . . . We retain the right to review the costs and disallow any that are found to be inappropriate.

Order No. PSC-95-0255-FOF-EI, at p. 4. (Emphasis added).

Based on this Order, it is clear that, by retaining our authority to review the prudence and reasonableness of costs charged to the storm damage reserve, we also intended to retain our authority to determine whether a particular *category* of costs was appropriately charged to the storm damage reserve. It remains the utility's burden to show that specific charges against storm damage reserves are appropriate.

A review of Commission orders related to other electric utilities shows that we intended that each utility should be held to the same standard. Most notably, in an Order addressing a request by Gulf Power Company (Gulf) to amortize hurricane-related expenses to its storm damage reserve, we cite the TECO Order in the same breath as Order No. PSC-95-0264-FOF-EI (FPL) as the standard for our review of costs charged to a utility's storm damage reserve:

> The expenses related to the two hurricanes named above have not been reviewed by the Commission. In Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, related to the self-insurance mechanism for Florida Power & Light Company, the Commission stated: "...we have the authority to review any expenses charged to the reserve for reasonableness and prudence." In Order No. PSC-95-0255-FOF-EI, issued February 23, 1995, related to Tampa Electric

[1] Issued February 23, 1995, in Docket No. 930987-EI, In re: Investigation into Currently Authorized Return on Equity of Tampa Electric Company. (TECO)

> Company's self-insurance mechanism, the Commission stated: "[w]e retain the right to review the costs and disallow any that are found to be inappropriate."
>
> In accordance with our prior treatment of expenses related to individual utility self-insurance mechanisms, we retain the right to review Gulf's charges to the Accumulated Provision for Property Insurance Account related to these two storms, at any time, for reasonableness and prudence and to disallow any that are found to be inappropriate.

Order No. PSC-96-0023-FOF-EI, issued January 8, 1996, in Docket No. 951433-EI, In re: Petition for Approval of Special Accounting Treatment of Expenditures Related to Hurricane Erin and Hurricane Opal by Gulf Power Company, at p. 4.

PEF correctly states that at no prior time has a question been raised about its accounting for storm-related costs. However, this fact serves only to bolster the position that the methodology has indeed never been approved or in any manner been put at issue prior to the instant docket. Had we intended that Order PSC-94-0852-FOF-EI give approval to PEF's methodology, it would have expressly stated as much, and several if not all intervenors in the instant docket would have almost certainly objected to such a decision at that time. Certainly, we do not support a reading of Order PSC-94-0852-FOF-EI which would require this Commission to abrogate its authority to review the prudence and reasonableness of costs, or categories of costs, charged to a utility's storm damage reserve.

In conclusion, we find that Order No. PSC-94-0852-FOF-EI was not intended to approve the methodology proposed in PEF's Study as the standard by which we determine the costs to be appropriately charged to PEF's storm damage reserve. In Order No. PSC-94-0852-FOF-EI, we did not expressly approve the methodology proposed in PEF's study, and made no finding that the methodology was "reasonable" or "appropriate" or otherwise should be used as the continuing standard for charging costs to the storm damage reserve. We agree with the intervenors that PEF has failed to provide adequate justification as to why its methodology is the one which should be used in this proceeding. Therefore, our determination as to which costs are appropriately charged to PEF's storm damage reserve shall be made consistent with our findings in the other issues.

ADJUSTMENTS TO STORM-RELATED COSTS

Non-Management Employee Labor Expense

PEF is seeking recovery of non-management employee labor expense incurred during the 2004 hurricane restoration activities. OPC contends that PEF's proposal has customers paying twice for its non-managerial employees' regular salaries. OPC witness Majoros testified that PEF proposes to charge the full labor costs associated with storm recovery efforts to the storm damage reserve. He further testified that by moving all expenses associated with storm restoration to the storm reserve, without consideration of the normal level of expenditures funded through base rates, PEF has effectively required customers to pay twice for those costs. Mr.

Majoros stated that this practice is referred to as double dipping. OPC further argues that PEF is attempting to obfuscate the issue of double dipping by bringing up the issue of its catch-up work. Mr. Majoros concluded that regular pay salaries for bargaining unit and non-exempt employees, for both PEF and the service company, should be removed from the storm damage reserve.

FIPUG witness Sheree Brown testified that PEF's proposal seeks to hold PEF harmless from any damages related to the storms, while increasing costs to residents and businesses in PEF's service territory. Further, Ms. Brown stated that PEF's proposal seeks 100% cost recovery from consumers, with no contribution from PEF. She asserted that PEF has reduced its normal O&M expenses and has shifted these costs to hurricane damage accounts. This cost shifting resulted in favorable variances. She further explained that the favorable variances indicate that PEF spent less than it had originally budgeted, and that PEF's earnings from base rate revenues increased. Ms. Brown concluded that we should reduce PEF's storm damage claim by the amount of normal O&M expenses that were shifted into the storm damage accounts, and that these costs should be expensed during the time period incurred. She further stated that any future expenses charged to the storm damage accounts should be limited to verifiable incremental costs incurred over and above PEF's budgeted O&M.

Ms. Brown explained under questioning that the decline in the Company's O&M cost from August through October indicated that costs were shifted out of normal O&M over into the storm damage account. She further explained that "[p]utting your finger on the actual amount, I believe, is an insurmountable task that we don't have the evidence now, and I don't even believe that Progress Energy has the, has the knowledge of, of being able to tie down the exact numbers." Ms. Brown concluded that her recommended adjustment to bring PEF's ROE down to the 10% level in 2004 takes into account all the double dipping issues and it resolves them. As discussed below, we disagree with Ms. Brown's ROE adjustment.

PEF witness Wimberly testified that PEF charged all direct costs related to the hurricanes to the storm damage reserve. He also stated that budgets cannot be used as a tool to predict and account for the cost of hurricanes. However, Mr. Wimberly acknowledged that the purpose of the budget is to predict and anticipate ordinary costs on an annual basis, including such costs as regular salaries. Mr. Wimberly further testified that PEF has incurred and continues to incur additional costs from overtime and contract labor for catch-up work which was estimated to be over $25 million. However, on cross-examination by PEF, Mr. Majoros testified that "[e]ven if some of the tasks have shifted to the future periods, the flexibility of the budgeting process may easily accommodate them." Mr. Majoros asserted that PEF should be required to demonstrate that it will incur financial harm as a consequence of the catch-up tasks following the completion of storm repairs and that it has failed to do so in this docket.

Under cross-examination, Mr. Wimberly also acknowledged that when PEF's employees reported for the regular workday and if that day was spent working on storm-related matters, then the regular eight-hour workday was charged to storm accounts. Mr. Wimberly asserted that if work is related to hurricane restoration, then those costs related to that work is automatically extraordinary and chargeable to the storm accounts. He also acknowledged that a normal eight-

hour workday is not an extraordinary cost. Mr. Wimberly also agreed that there was nothing attached to his direct testimony to support the $25 million in catch-up work.

PEF witness Portuondo testified that PEF is seeking to enforce only its understanding reached and followed since 1993 concerning how PEF should account and recover for direct storm-related expenses. Mr. Portuondo testified that PEF is not "gaming" the system by shifting normal labor costs covered by base rates to storm accounts reimbursable through a special cost-recovery clause resulting in double dipping. He asserted that Ms. Brown reaches her conclusion that the Company engaged in cost shifting by looking at only part of the picture. Mr. Portuondo further stated that PEF's normal demands did not go away during the storms.

Mr. Portuondo explained under questioning that there are a number of tasks that still need to be accomplished, including Commission proceedings and SEC financial reporting obligations. Mr. Portuondo asserted that PEF will not recover its costs incurred since its does not have revenues coming in, and if the revenue is not coming then PEF is not getting the revenues that would directly offset those costs. However, Mr. Portuondo acknowledged that, prior to Hurricane Andrew, PEF's insurance did not cover lost revenues. On cross-examination by PEF, OPC witness Majoros testified that the catch-up work estimates should not be an issue in this case since the Company did not make a claim for lost revenues, and PEF achieved positive revenue variances according to its internal management budget presentations.

We agree with OPC witness Majoros that base rates support a budgeted level of O&M expense, and that shifting normal (budgeted) O&M expenses into the storm reserve account would constitute double recovery. Based on the evidence in the record, we find that a favorable budget variance is a reasonable indicator that normal costs were shifted to the storm reserve account based on PEF's actual restoration cost approach. It is the utility's burden to prove that its requested costs are reasonable. Florida Power Corporation v. Creese, 413 So. 2d 1187, 1197 (Fla. 1982). We find that PEF has failed to: 1) demonstrate that its customers would not pay twice for its normal non-management labor expense; 2) quantify any amount of lost revenues; and 3) support its estimated amount of catch-up costs as a result of the 2004 hurricane season. Therefore, PEF's non-management employee labor expense, except for customer service employees which are later discussed, shall be adjusted to reflect only the incremental costs above its budgeted levels for the year end 2004. To prevent PEF from collecting twice for its employees' regular pay, we shall disallow $5,140,639 of the amount PEF charged to the storm reserve. In doing so, we note that "it is the [Commission's] prerogative to evaluate the testimony of competing experts and accord whatever weight to the conflicting opinions it deems necessary." Gulf Power Co. v. FPSC, 453 So. 2d 799, 805 (Fla. 1984).

Managerial Employee Payroll Expense

PEF is seeking recovery of managerial employee payroll expenses incurred during the 2004 hurricane restoration activities. OPC witness Majoros concluded that regular pay salaries for exempt employees, for both PEF and the service company, should be removed from the storm damage reserve. As discussed below, we disagree with FIPUG witness Brown's ROE adjustment in order to account for any double recovery concerns. As discussed above, the utility

has not met its burden to support its lost revenues and catch-up work arguments to refute the double recovery concerns. We also agreed with OPC witness Majoros that base rates support a budgeted level of O&M expense, and that shifting normal (budgeted) O&M expenses into the storm reserve account would constitute double recovery.

PEF's attempt to distinguish its practice from double recovery based on the type of work performed is not supported in the record. Further, PEF has neither demonstrated that its customers would not pay twice for its managerial labor expense, nor supported its estimated amount of catch-up costs as a result of the 2004 hurricane season. Accordingly, PEF's managerial employees' labor expense, except for customer service employees which is discussed below, shall be adjusted to reflect only the incremental costs above its budgeted levels for the year end 2004. To prevent PEF from collecting twice for its managerial employees' regular pay, $6,197,565 of the amount PEF charged to the storm reserve shall be disallowed.

Time Period to Cease Charging 2004 Storm Costs

Also at issue in this proceeding is the point in time that PEF should stop charging 2004 storm restoration costs to the storm damage reserve. OPC witness Majoros testified that PEF plans to charge hurricane-related work still remaining after the storms have passed and operations have returned to normal. Mr. Majoros contends that PEF should stop charging 2004 hurricane-related costs to the storm account when PEF employees have returned to regular hours and the work is being performed by PEF employees and the contractors whom PEF engage on a routine, ongoing basis. However, OPC states that determining the proper point has been difficult to determine.

FIPUG and FRF agreed that charges to the storm reserve should cease no later than January 1, 2005. However, PEF witness Rogers testified that the majority of the crews assigned to the repair of the transmission system were still working ten-hour days, five or six days a week to complete the catch up and restoration work, including "sweeps" work[2]. PEF witness Lyash testified that restoration work should be completed by the second quarter of 2005. PEF witness McDonald was unable to state whether crews assigned to the repair of the distribution system had returned to a normal work week.

Given the extensive repairs necessary to PEF's system, we find it is unrealistic to stop accruals to the storm damage reserve at the conclusion of storm restoration activities or January 1, 2005, whichever occurred first. Even using the latest date of January 1, 2005, for the completion of all repairs, as FIPUG and FRF recommend, allows PEF less than a three-month period of time after the hurricanes to make these repairs. As discussed above, PEF was still incurring overtime costs for repairs after that date; in fact these repairs were continuing through the hearings in this case in late March, 2005. We therefore find that is reasonable and

[2] PEF Witness Wimberly referred to "sweeps" as work that could not be doing during the initial restoration process because the goal is to restore power as quickly and safely as possible. The objective of sweeps work is to "sweep" the T&D systems, determine the remaining storm damage, and restore the facilities and equipment to their condition prior to the hurricane.

appropriate that PEF shall stop charging costs related to the 2004 storm season, including sweeps works, no later than July 1, 2005.

Employee Training Costs

PEF incurred employee training costs associated with 2004 storm restoration activities. PEF witness Rogers testified that the Transmission Department's Storm Plan consisted of four elements. Those elements are pre-season activities, pre-storm activities, damage assessment and repair, and recovery follow-up activities. Ms. Rogers also stated that the pre-season activities included the necessary arrangements prior to the storm or hurricane season to insure that the Company was prepared. Ms. Rogers later testified that pre-season activities occur on a yearly basis, and as a result costs are included in the annual budget.

OPC states that employee training, including storm restoration training, is part of the normal operations of the Company and should not be charged to the storm damage reserve. Both Mr. McDonald and Ms. Rogers testified that no pre-season hurricane costs were charged to the storm account. PEF testified that there are no pre-season storm training costs charged to the storm account, and there is no indication in the record by any other party that there were any improper costs charged to the account for employee training for storm restoration work. We therefore find that it is reasonable that no adjustment shall be made for employee training costs.

Tree Trimming Costs

PEF requested recovery for tree trimming costs associated with the damage caused by Hurricanes Charley, Frances, Jeanne, and Ivan. OPC contends that PEF should be allowed to charge only the incremental cost of tree trimming above its normal, budgeted levels for the calendar year 2004. Based on information provided by PEF, OPC witness Majoros testified that PEF's tree trimming expenses were under budget for the months during and following the hurricanes. He asserted that base rates support a budgeted level of O&M expense, and that moving all expenses associated with the storm repair effort to the storm reserve, without taking into account the normal level of expenditures funded by base rates, that PEF is "double dipping." Mr. Majoros concluded that there should be a $3.9 million adjustment based on the favorable (under-budget) variance for tree trimming as of October 2004.

PEF witness Wimberly testified that the tree trimming budget for December 2004 showed that it was unfavorable (over budget) by $2.8 million, but was favorable (under budget) by $1.4 million for the year-end 2004. Through cross-examination by PEF, Mr. Majoros did agree that his $3.9 million adjustment for tree trimming should be changed based on Mr. Wimberly's rebuttal testimony. Mr. Majoros stated that because Mr. Wimberly testified that PEF was over-budget by $2.8 million, the adjustment should be zero. Through redirect examination, however, it became clear that Mr. Majoros had mistakenly believed that the $2.8 million unfavorable variance was for the entire calendar year 2004, rather than for only the month of December 2004.

During cross-examination, PEF witnesses McDonald and Mr. Wimberly explained that restoration tree trimming is different from PEF's budgeted production trimming. Restoration or spot trimming involves identifying individual trees/limbs that are interacting with the Company's

facilities and hindering the ability to restore service. Production trimming involves trimming based on the growth patterns of trees that occur in the Company's right-of-ways. Mr. Wimberly further added that production trimming is paid on a per-mile basis.

As discussed below, we disagree with FIPUG witness Brown's ROE adjustment in order to account for any double-dipping concerns. As discussed previously, we do not believe that the utility has met its burden to support its lost revenues and catch-up work requests to refute the double dipping concerns. We agree with OPC witness Majoros that base rates support a budgeted level of O&M expense, and that shifting normal O&M expenses into the storm reserve account constitutes double dipping.

Without the level of information from a detailed incremental cost analysis, which was not provided, we find that a favorable budget variance is a reasonable indicator that normal costs were shifted to the storm reserve account under the Company's actual restoration cost approach. It is the utility's burden to prove that its requested costs are reasonable. See Florida Power Corporation v. Cresse. We note that PEF has failed to demonstrate that the customers would not be paying twice for the normal tree trimming expenses. Based upon the evidence of record, we find that PEF shall be allowed to charge only the incremental cost of tree trimming above its normal, budgeted levels for the calendar year 2004. As a result, $1.4 million of the amount PEF charged to the storm reserve shall be disallowed.

Company-Owned Fleet Vehicle Costs

PEF incurred transportation costs associated with its hurricane restoration activities, including operating costs, fuel expense, and repair and maintenance expense of its fleet vehicles. OPC contends that PEF is seeking to charge vehicle depreciation expense and base levels of operating costs to the storm reserve. Based on information provided by PEF, OPC witness Majoros testified that PEF's storm reserve account includes the following Company-owned fleet vehicle expenses: 1) $909,000 for depreciation; 2) $702,000 for fuel; 3) $1.6 million in maintenance; and 4) $222,000 in overhead. He stated that although Company vehicles have been used in the storm recovery effort, these vehicles have already been included in the annual budget. He asserted that base rates support a budgeted level of O&M expense. He further testified that, by moving all expenses associated with the storm repair effort to the storm reserve, without taking into account the normal level of expenditures funded by base rates that customers pay, PEF effectively requires customers to pay twice for the costs.

Mr. Majoros stated that depreciation and vehicle overhead would be the same regardless of whether they are used for storm damage restoration or used in the regular course of business. He asserted that the only extraordinary vehicle cost that the Company incurred is the incremental cost of fuel, due to longer daily operations. Based on the assumption that vehicles were in use 16 hours per day during storm restoration, rather than the normal 8 hours per day, Mr. Majoros recommended that one-half of the fuel expense be included in the storm reserve. Mr. Majoros concluded that an adjustment of $3,043,015 related to vehicle expense should be removed from the amount PEF charged to the storm reserve account.

PEF witness Wimberly stated that the Company charged all direct costs, including vehicle expense, related to the hurricanes to the storm reserve consistent with long-standing Commission orders, policy, and utility practice, as explained in the rebuttal testimony of PEF witness Portuondo. Mr. Wimberly argued that Mr. Majoros' adjustment to reduce the fuel cost by half is based on the actual money spent on fuel during the hurricane restoration process, not the budget. Mr. Wimberly contended that Mr. Majoros overreaches here because he made no effort to determine the budgeted amount of fuel for the days of the hurricane restoration effort from the annual Energy Delivery budget for 2004. In its brief, OPC argued that Mr. Wimberly does not refute that these vehicles would be used 8 hours per day irrespective of the storms.

As stated previously, we disagree with FIPUG witness Brown's ROE adjustment in order to account for any double-dipping concerns; further, we find that the utility has not met its burden to support its lost revenues and catch-up work arguments. We agree with OPC witness Majoros that base rates support a budgeted level of O&M expense and that shifting normal O&M expenses into the storm reserve account would constitute double dipping. We also agree with Mr. Majoros that vehicle depreciation, maintenance, and overhead would be incurred regardless of the storms in 2004. It is the utility's burden to prove that its requested costs are reasonable. See Florida Power Corporation v. Cresse. PEF has failed to demonstrate that the customers would not be paying twice for the normal vehicle expenses and failed to quantify any incremental increases for fuel, maintenance, and overhead. Based upon the evidence of record, we find that is reasonable and appropriate that PEF shall charge only the incremental fuel costs associated with extra shifts. As a result, $3,043,014 million of the amount PEF charged to the storm reserve shall be disallowed.

The following table shows the calculation for how we arrived at our approved vehicle expense adjustment:

Depreciation	$ 909,352
Half of Fuel Expense ($702,796/2)	350,898
Maintenance	1,560,600
Overhead	222,164
Total Vehicle Expense Adjustment	$3,043,014

Call Center Activity Costs

PEF incurred a range of communications costs associated with the 2004 hurricanes, related to awareness, customer preparation, outage reporting instructions, and safety. A portion of those costs are related to PEF's call centers, which handled outage calls and helped answer customer questions. As stated by witness Lyash, the total cost for communications associated with the four storms, including the Customer Service Center activities, was $3.6 million. PEF stated that it has not deducted its budgeted O&M expenses from the storm reserve.

OPC contends that PEF should charge only extraordinary levels of the call center expenses, incremental to the normal levels, to the storm damage account. OPC witness Majoros stated that OPC developed some guidelines designed to ensure that only extraordinary expenses would be booked to the storm reserve account and he endorsed those guidelines. Mr. Majoros testified that call center activities should be excluded except for non-budgeted overtime associated with the storm event. He further testified that, by moving all expenses associated with the storm repair effort to the storm reserve, without taking into account the normal level of expenditures funded by base rates that customers pay, PEF effectively requires customers to pay twice for the costs. Mr. Majoros asserted that call center expenses for the storm cost recovery should be limited to the call overloads created by the storms.

Mr. Majoros stated that he had reviewed PEF's internal management budget presentations to determine the amount of normal O&M expenses shifted to the storm reserve. Although PEF's internal budget has been reviewed by Mr. Majoros, in its brief, OPC stated that it has not formulated a numerical adjustment for call center activities at this time. We note that FIPUG witness Brown testified that it is an insurmountable task to put your finger on the actual amount of normal O&M expenses shifted to the storm reserve because she does not believe PEF has the knowledge to enable the utility to tie down the exact numbers. We agree, in principle, with Mr. Majoros that call center activities should be excluded except for non-budgeted overtime associated with the storm event because the normal payroll expense is recovered through base rates.

In determining the appropriate amount of labor payroll in the storm reserve, we previously found that the regular salaries of management and non-management employees, except for call center employees, that were charged to the storm reserve shall be disallowed. PEF provided a breakdown of the total salaries charged by department and by type of pay (i.e. regular, extended pay, special pay, double time, and overtime, etc.). PEF recorded total "FPC Customer Service" payroll expense of $1,063,949 in the storm reserve. PEF witness Lyash testified that PEF had over 425 associates dedicated to handling outage calls during the storms and that there are normally 250 customer service representatives handling calls 24 hours a day, seven days a week. As such, this indicates that approximately 59% (250 normal employees divided by 425 employees designated during the storms) of call center expenses charged to the storm reserve were normal expenses.

It is the utility's burden to prove that its requested costs are reasonable, and PEF has failed to demonstrate that the customers would not be paying twice for the normal call center expenses. Based on the evidence in the record, we find that it is reasonable to disallow $625,852 (approximately 59% of $1,063,949) from the amount PEF charged to the storm reserve. Further, consistent with Mr. Majoros' testimony, in the future, PEF shall adjust call center activity expenses charged to the storm reserve by the incremental difference of call load experience during and immediately after hurricanes with the actual prior 3-year average call load during the same time period involved.

Advertising and Public Relations Costs

PEF seeks recovery for communications costs associated with providing information to the public, local and state officials, and the media. PEF witness Portuondo testified that PEF charged special advertising and media costs associated with customer information, public education and safety to its Storm Damage Reserve. PEF witness Lyash testified that PEF's communication plan includes proactive advertising and media communication of public awareness and safety messages before, during, and after the storm; working with the media to provide customers with estimated times of restoration; communicating directly with individual customers; and communicating with local, county, and state officials to keep them informed of PEF's activities.

In his prefiled testimony, witness Lyash describes PEF's extensive communication effort before, during, and following the four storms. PEF's efforts included, but were not limited to, reinforcing key preparation and safety messages to its customers through print, radio, and television, increasing staffing in its Customer Service Centers to provide the latest information to its customers, and providing professional personnel for each county Emergency Operations Center as well as the state Emergency Operations Center. PEF witness McDonald testified regarding the importance of frequent communications to state and local governments, the Commission, and PEF's retail commercial, industrial, governmental, residential and wholesale customers. As witness McDonald testified, these constituencies are dependent upon the communicated information to make critical decisions of their own, therefore the timeliness and accuracy of PEF's status reports are critical.

As stated by witness Lyash, the total cost for communications associated with the four storms, including the Customer Service Center activities addressed above, was $3.6 million. PEF indicates that this $3.6 million has been included in the O&M expenses for which the utility seeks recovery of $251.9 million.

OPC, Sugarmill Woods, AARP and FRF take the position that we should disallow $2,428,891, or the rounded $2.4 million, in advertising and/or public relations expense. FIPUG takes the position that PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred, but it has not quantified the incremental amount. Further, it cannot be determined how the $2,428,891 stated in the other parties' positions was derived or why it differs from PEF's $3.6 million. OPC witness Majoros testified that the amount charged to the storm damage reserve account should exclude all expenses associated with advertising expense. He also testified that he was unable to quantify the call center expenses, which is part of the $3.6 million.

In Commission proceedings, advertising expenses are generally examined on a case-by-case basis. If the utility's advertising expenses are found to be informational, educational or safety-related in nature and beneficial to its ratepayers, we generally allow recovery. If, on the other hand, advertising expenses are found to be institutional, image-building or provide no benefit for the regulated ratepayer, we generally disallow recovery. See Order No. PSC-02-0787-FOF-EI, Docket No. 010949-EI, issued June 10, 2002, In re: Request for rate increase by

Gulf Power Company; Order No. PSC-03-0038-FOF-GU, Docket No. 020384-GU, issued January 6, 2003, In re: Petition for rate increase by Peoples Gas System; Order No. PSC-04-0128-PAA-GU, Docket No. 030569-GU, issued February 9, 2004, In re: Application for rate increase by City Gas Company of Florida; Order No. PSC-04-0565-PAA-GU, Docket No. 030954-GU, issued June 2, 2004, In re: Petition for rate increase by Indiantown Gas Company; and Order No. PSC-04-1110-PAA-GU, Docket No. 040216-GU, issued November 8, 2004, In re: Application for rate increase by Florida Public Utilities Company.

We have no reason to believe that the costs that were expended for advertising, communications, and public relations expense fail to meet our criteria of being recoverable, as they are believed to be informational, safety-related, and beneficial to PEF's regulated ratepayers. In addition, due to the circumstances of the four back-to-back storms, we find that these costs were expended under extraordinary circumstances. However, as shown by witness Lyash, the advertising and public relations expenses are closely related and combined into the $3.6 million category included in PEF's request for storm damage recovery. Furthermore, as stated throughout this Order, we are approving recovery through the storm recovery reserve of only the costs that are over and above normal O&M costs.

Because the record does not establish the normal advertising and public relations expense, and because of the apparent close interrelationship between the Customer Service Center, advertising expenses and public relations expenses, we find that it is reasonable to apply the same percentage applied to call center expenses, i.e. 59%, to the remaining $2,536,051 with respect to advertising and public relations costs ($3,600,000 less $1,063,949 [payroll]). The resulting $1,496,270 shall therefore be disallowed. This $1,496,270 adjustment is in addition to the $625,852 reduction for Customer Service Center personnel previously approved. Further, in the future, PEF shall exclude budgeted advertising and public relations expense from its storm damage reserve.

Uncollectible Expenses

PEF is seeking recovery for $2.25 million in bad-debt write-offs due to storm damage. PEF witness Portuondo testified that the Company included in its O&M costs charged to the storm reserve all actual repair activities and those activities directly associated with storm damage and restoration activities. He further stated that one of the items PEF charges to the Storm Damage Reserve is identifiable bad debt write-offs due to storm damage.

OPC, SMW, AARP and FRF take the position that we should disallow the $2.25 million. The intervening parties believe that uncollectible expense should not be included because it does not fall into the category of repairing PEF's system and restoring service. Further, they believe that it cannot be determined if the uncollectible expense was attributable to the storms.

OPC witness Majoros stated that OPC's Storm Damage Guidelines specifically exclude uncollectible expense. He testified that the amount is speculative, and unlike other types of expenses which will ultimately be trued-up, uncollectible expense is likely to remain speculative as there is no way to determine if a customer's account must be written off specifically due to the

storm, or for other reasons. Witness Majoros goes on to state that PEF has failed to demonstrate the actual amount of uncollectible expense it may have incurred due to the storms.

We find that there can be a direct relationship between hurricane activity and the level of bad debts that is supportable if not directly identifiable. Also, bad debt expense should not automatically be excluded from recovery through the storm damage reserve simply because it does not fall into the category of repairing PEF's system and restoring service.

PEF witness Wimberly testified that there was an increase in bad debts incurred during the course of the hurricanes. Mr. Wimberly stated that the bad debt costs have increased and are coming in as predicted. The Company produced Late-Filed Exhibit 52, entitled Description of the Normal Accounting for Bad Debt. The description outlines PEF's normal accounting for bad debt expense and the effect on related accounts, including the reserve. The exhibit also included PEF's calculation of $2.25 million, which is the combination of two separate components. First, the July 29, 2004, projection of net write-offs for 2005 was $5.7 million, versus the September 5, 2004, projection of $7.3 million for 2005, which represents a $1.6 million increase from escalated arrears from Hurricane Charley. According to the Company, this $1.6 million did not include the impacts of Hurricanes Frances, Ivan, or Jeanne. Second, the projection of the remaining $650,000 is included to represent the potential maximum impacts of all four storms.

Our staff reviewed PEF's methodology and accounting process for recording bad debt and the related accounts, as well as this Commission's past practice of handling uncollectible expense and the bad debt factor in base rate proceedings. Not carving out the uncollectible expense that is directly related to the storms for recovery through the Storm Damage Reserve could result in the write-offs that are directly attributable to the storms being rolled into future base rates through the rolling 12-month average, or it could result in no recovery at all, depending upon how these costs are viewed in rate case proceedings. We find that allowing recovery through the storm damage reserve will help prevent the possible skewing of bad debt expense and the bad debt factor, which is a component of the base rate revenue expansion factor. Therefore, we find that it is preferable to recover the write-offs that are directly related to the hurricanes through the Storm Damage Reserve.

PEF has shown that its $2.25 million of uncollectible expense for 2005 is directly associated with storm damage and restoration activities and that the Company's testimony supports that it is experiencing bad debt costs that are in line with its $2.25 million predictions. For the above reasons, we approve PEF's request to recover $2.25 million of bad debt expense through the storm cost recovery mechanism that we establish herein. However, any recoveries of the directly related uncollectible expense shall be credited to reduce the amount of unrecovered storm damage costs.

Revenues for Assistance With Storm Restoration Activities

Also at issue in this proceeding was whether PEF should be required to offset its storm damage recovery claim by revenues it received from other utilities for providing assistance in those utilities' storm restoration efforts. Specifically, FIPUG witness Brown testified that PEF

assisted Dominion Power with its restoration efforts after Hurricane Isabel, and that the Company was reimbursed $1.1 million for labor and associated taxes and benefits. Ms. Brown argued that the normal hourly costs for those PEF employees that assisted would have already been recovered through base rates. She stated that PEF also assisted Entergy in restoration efforts after Hurricane Lili and assisted Progress Energy Carolinas, Inc. (PEC) in storm restoration efforts.

Ms. Brown asserted that if PEF is allowed to recover its storm damage costs through a recovery clause, it should not be allowed to retain any revenues received for assisting other utilities in their restoration efforts to the extent that the revenues were to reimburse PEF for normal O&M expenses. She argued that it would constitute double dipping, if the revenues received for normal wages, benefits, and payroll taxes of PEF employees who assisted other utilities in their restoration efforts were not offset against PEF's storm damage expenses. Ms. Brown concluded that PEF should be required to credit the storm damage reserve in the future by revenues received for normal wages, benefits, and payroll taxes when assisting other utilities in storm-related activities.

PEF witness Portuondo testified that Ms. Brown ignores the fact that PEF employees who were diverted from their normal tasks had to return to those activities after they completed their assistance to other utilities. He stated that the services which those employees performed outside PEF's service territory did not benefit its customers nor did its customers pay for those services. Mr. Portuondo argued that PEF used the base rates it collected from customers to pay for the normal work that these employees were expected to perform before and after their out-of-state assignment. He explained that, at the same time, the Company used the revenues collected from other utilities to defray the cost of the services these employees provided outside PEF's territory. Mr. Portuondo concluded that it was illogical to credit PEF's customers with revenues collected outside its territory for work that benefited other customers.

We agree with PEF witness Portuondo that no credit should be made for revenues collected outside its territory for work that benefited other customers. The assistance provided by PEF employees to other utilities has no direct relationship with storm damage expenses that the Company incurred as a result of the 2004 hurricanes. Based on the evidence in the record, we find that it is reasonable to make no adjustment to the storm reserve for any revenues received for assisting other utilities in their restoration efforts.

Retirement of Damaged Plant-In-Service

PEF removed an estimated $47 million from the storm reserve and applied that amount to its plant-in-service accounts. This remained at issue in this proceeding, according to the following stipulation which we have approved herein:

> With respect to replacements of plant items associated with 2004 post-storm repair and restoration activities, the parties stipulate and agree that PEF shall book to plant in service the normal cost of new plant additions under normal operating conditions, and shall book to the storm reserve (as extraordinary O&M) only the costs of new plant additions that exceed those normal amounts. PEF stipulates

and agrees to verify that it has implemented this methodology and to provide final values for the portions of costs associated with new plant additions that it has booked to plant in-service and to the storm damage reserve, respectively, after it has completed the booking of relevant costs. PEF's current estimate of costs that it will book to plant in service using this methodology is approximately $47 million dollars.

This partial stipulation addresses only the appropriate accounting methodology to be employed for the accounting of costs associated with plant replacements, and does not prevent any party from challenging the reasonableness or prudence of any individual cost item. Further, the partial stipulation does not address the aspects of Issue 12 that treat retirements and cost of removal expense, which remain at issue.

The staff audit report of PEF in this docket, sponsored by Staff witness Jocelyn Y. Stephens, stated that the audit was conducted to summarize storm costs by storm and resource type and selected resource categories for testing. Witness Stephens provided two audit disclosures relevant to the issue of retirements and the cost of removal expense. Audit Disclosure No. 1 addresses the capital expenditures. She stated that after reviewing the monthly accrual to the storm damage account, PEF was unable to indicate which of the actual costs would be transferred to plant and which would be transferred to O&M expenses. As stated above, PEF stipulates and agrees to book to plant in service the normal cost of new plant additions under normal operating conditions, and shall book to the storm reserve (as extraordinary O&M) only the costs of new plant additions that exceed those normal amounts.

Audit Disclosure No. 3 addresses removal labor costs. According to Staff witness Stephens, PEF isolated dollars for removal labor cost but did not include these dollars in the capital estimate total. Staff witness Stephens recommended that an adjustment be made to remove these costs from the storm reserve account and include them in the capital account.

PEF witness Portuondo stated that it was PEF's intent all along to make sure that the cost of removal was removed from the total final storm damage reserve as well as any other capital related expenditures. Mr. Portuondo testified that PEF intends to retire approximately $19 to $20 million of plant associated with storm damage. He also said that the ratio of cost of removal to retirements is approximately 5%. Mr. Portuondo stated that the 5% ratio assigned to cost of removal vs. retirements is the amount PEF would have envisioned expending to accomplish the removal of the retirements. He also stated that PEF has estimated approximately $1.2 million for storm related cost of removal based on this percentage. Mr. Portuondo admitted that the cost of removal rate is much lower than the PEF consultant's theoretical calculation in its current depreciation study.

OPC witness Michael J. Majoros believes that PEF has failed to provide the necessary accounting documentation that demonstrates the procedures it will apply for plant additions, cost of removal, and capital replacements made necessary by storm damage. He stated that PEF should provide the actual cost of removal accounting entries. He further states that PEF's current

cost of removal reserve for transmission and distribution facilities ($528 million) compared to the cost of retirements is 42%. Mr. Majoros testified that the cost of removal expense due to storm damage should be recalculated using the ratio derived from PEF's current depreciation study or PEF's most recent study that relates current cost of removal to the cost of retirements. He stated that if the most recent depreciation study ratio (42%) was used by PEF, then the minimum cost of removal would be $8.4 million.

We find that the cost of removal expense, which was not stipulated and remains at issue, needs to be adjusted. PEF's past depreciation studies show that the ratio of the cost of removal to the cost of retirements is significantly higher than the 5% that PEF has assigned. Information provided by PEF to OPC was the basis for Mr. Majoros' calculation of 42% for cost of removal to cost of retirements. According to PEF's response to OPC's third set of interrogatories:

> When the final cost of all Hurricane replacement assets installed is calculated, PEF will record a charge for all calculated removal cost to the accumulated depreciation expense account for the calculated removal cost. To date this transaction has not been recorded as final cost and all work has not been completed related to all fixed asset replacements. The removal cost will be treated similarly to the replacement of fixed assets and will not be applied to the storm damage fund.

We agree with PEF's assertion that it collects the cost of removing an item of plant through depreciation rates supported by the base rates, and that those costs will not be applied to the storm damage fund. We find that any calculated removal costs for plant damaged or destroyed by the Hurricanes shall reflect the rate that PEF is currently using to calculate removal cost. We disagree with PEF that 5% of retirements is the rate that PEF should use to calculate storm damage removal cost. PEF has not provided any evidence in the record to support the use of this rate.

We find that the 42% ratio used by Mr. Majoros is a reasonable number, and is supported by the record. Therefore, the storm damage reserve shall be adjusted by $8.4 million, and this amount shall be included in PEF's capital account.

Appropriate Costs to be Charged Against the Storm Damage Reserve

As discussed above, we have made several adjustments to the costs that PEF seeks to recover in this proceeding, from which we must then determine the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve, subject to true-up.

PEF witness Portuondo testified that PEF's self-insured storm damage reserve currently accrues $6 million annually and will have a balance of $46.9 million as of December 31, 2004, before any offset for storm-related costs in 2004. He stated that the storm-related costs experienced by PEF are currently estimated at approximately $366.3 million on a total system basis. Of this amount, Mr. Portuondo explained that approximately $311.4 million are storm-related O&M expenses on a total system basis. He stated that PEF has incurred capital

expenditures of $54.9 million on a total system basis to date as a result of the four hurricanes and that those expenditures will be carried by PEF until its next base rate adjustment.

Based on our preceding and subsequent findings, the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to true-up is $271,476,895 ($285,108,136 system). The following table shows our calculation:

PEF Estimated 2004 Storm Damage Expenses	$366,337,926
Less: Amount of Capital Expenditures Deferred to Next Rate Case	54,926,450
Total PEF System O&M Expenses	$311,411,476
Less: Commission-Approved Adjustments	
Non-Management Payroll Expense..... ($5,140,639)	
Managerial Payroll Expense..... (6,197,565)	
Tree Trimming Expenses..... (1,400,000)	
Vehicle Expenses..... (3,043,014)	
Call Center Costs..... (625,852)	
Advertising & Public Relations Expense.. (1,496,270)	
Costs of Removal..... (8,400,000)	(26,303,340)
Total Comm. System O&M Expenses Before Netting Reserve Balance	$285,108,136
Retail Jurisdictional Separation Factor	0.952189225
Total Comm. Retail O&M Expenses Before Netting Reserve Balance	$271,476,895

With all of the capital and O&M expense adjustments discussed above, we note that PEF's 2004 achieved ROE would be reduced from 13.48% to 12.66%, which represents a reduction of 82 basis points.

APPROPRIATE AMOUNT OF STORM-RELATED COSTS TO BE RECOVERED FROM CUSTOMERS

As discussed above, we have determined that the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to

true-up. We must also determine what the appropriate amount is of storm-related costs to be recovered from PEF's customers.

After the storm damage reserve is applied, PEF witness Portuondo testified that the remaining amount of storm-related O&M expense is $264.5 million, or $251,850,486 million allocated to the Company's retail jurisdiction that PEF seeks to recover. Assuming recovery in equal amounts over two years with interest and a commencement date of January 1, 2005, Mr. Portuondo recommended recovery of $132.2 million in 2005 and $128 million in 2006. He stated that the true-up of estimated costs to actual costs, with interest at the commercial paper rate would be applied to any over or under-recoveries. Based on our findings and the most recent commercial paper rate, the appropriate amount of storm-related costs to be recovered from the customers is $231,613,565. The following table shows our calculation:

Total Comm.System O&M Expenses Before Netting Reserve Balance	$285,108,136
Less: 12/31/04 Reserve Balance	(46,915,219)
Total System O&M Expenses Net of Reserve Balance per Comm.	$238,192,917
Retail Jurisdictional Separation Factor	0.952189225
Comm. Amount to Recover from Customers Before Interest & Taxes	$226,804,729
Plus: Interest Per Commission	4,867,856
Comm. Amount to Recover from Customers with only Interest	$231,672,585
Revenue Tax Multiplier	1.00072
Total Commission-Approved Amount to Recover from Customers	$231,839,389

ACCOUNTING TREATMENT OF UNAMORTIZED STORM-COST BALANCE

Although not specifically addressed by the witnesses at the hearing or in the parties' briefs, we have also determined the appropriate account in which to record the approved deferred storm-related costs during the period that they are being amortized. Once an amount is approved for recovery and amortization, it meets the definition of a regulatory asset. In this instance, the appropriate account is Account 182.1, Extraordinary Property Losses. This account was specifically created to include extraordinary losses, such as unforeseen damages to property, which are not covered by insurance or other provisions. This would include the amount of the storm-related costs, approved herein for future recovery, that exceeded the balance in the storm damage reserve. In order to assist in the tracking and review of the amounts included in this account and their subsequent amortization, a separate subaccount of Account 182.1 shall be established to record these transactions. The appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery is to record the costs as a regulatory asset in a subaccount of Account 182.1, Extraordinary Property Losses. We note

that this would be the "normal" accounting treatment for Commission-approved deferral and future recovery of extraordinary property losses.

CALCULATION OF INTEREST ON STORM-RELATED COSTS

All parties that have taken a position on this issue agree that, to the extent recovery of storm damage restoration costs is granted through a storm cost recovery clause or surcharge, PEF should be allowed to charge interest at the applicable 30-day commercial paper rate. (Category One Stipulation No. 3) The remaining determination for this issue is the appropriate balance on which the commercial paper rate should be applied.

Consistent with Rule 25-6.0143(4)(b), Florida Administrative Code, PEF booked storm damage restoration costs to its Storm Damage Reserve for regulatory purposes. For tax purposes, however, PEF expensed the storm damage restoration expenses in 2004. This treatment resulted in the Company booking additional accumulated deferred taxes of approximately $135.8 million. While this is a temporary timing difference that will be reversed as the storm damage surcharge is collected, in the meantime the deferred taxes are a source of cost-free capital to the Company.

In its petition, PEF dealt with the storm-related deferred taxes by including a certain amount in its capital structure. FIPUG witness Brown testified that the Company should recognize the storm-related deferred taxes in the calculation of interest carrying charge on the unamortized balance of any storm-related costs the Company is permitted to recover from ratepayers. Specifically, she testified that the Company should only be allowed to charge interest on the net-of-tax balance of the storm damage account.

All things being equal, including the storm-related deferred taxes in the capital structure as zero-cost capital would result in a greater benefit to ratepayers than using the deferred taxes as an offset to the unamortized storm damage balance in the interest calculation. However, in the instant case, all things are not equal. The ratepayers only benefit from the inclusion of storm-related deferred taxes in the capital structure if rates are reset when the deferred taxes are present. Because the Company is using 13-month average balances in a December 31, 2006 projected test year, by operation of math, over half of the storm-related deferred taxes will have turned around and therefore will not be recognized in the 2005 rate case. To capture the value of the storm-related deferred taxes for the benefit of the ratepayers, we are approving a compromise approach.

Because the Company's petition is predicated on including a certain portion of storm-related deferred taxes in the capital structure, we are leaving this amount intact and afford it the treatment it would ordinarily receive in the rate case. However, for the remaining portion of storm-related deferred taxes that, by operation of math, are not included in the capital structure, we make use of the information from Exhibits 25 and 49 provided by PEF witness Portuondo and Exhibit 39 provided by FIPUG witness Brown to determine the net-of-tax balance for purposes of calculating the interest carrying charge. Specifically, interest shall be calculated on the net-of-tax balance for the period July 2005 through June 2006. Interest will be calculated on

the remaining balance, without any adjustment for deferred taxes, for the period July 2006 through June 2007. This adjustment reduces the interest carrying charge on the unamortized balance of storm-related costs by approximately $2 million. In this manner, we can capture the value of that portion of the storm-related deferred taxes for the benefit of PEF's ratepayers that would have otherwise gone unrecognized.

APPROVAL OF TEMPORARY SURCHARGE

As discussed below, we find that the storm costs approved for recovery shall be treated as a temporary surcharge, rather than a cost recovery clause. While the impact on customers' bills is the same under either mechanism, we have concerns about approving a clause to recover extraordinary costs, particularly on a retroactive basis.

Parties' Arguments

PEF's petition asked for a two-year limited Storm Cost Recovery Clause. The arguments for a cost recovery clause are based on the limited nature of the requested recovery, the volatility and unpredictability of storm related costs, and the desirability of matching recovery with cost incurrence. Further, PEF notes that we stated that we would consider a cost recovery clause in the orders establishing the self-insurance programs. PEF further suggests that since the costs did not occur in a test year, recovery would not be allowed in its pending rate case. PEF also suggests that if the costs "have to be recovered from the ratepayers," they necessarily must be recovered outside of base rates, and revenues and a cost recovery clause mechanism is the only way to do that in a timely manner. As further evidence of appropriateness of the clause recovery mechanism for storm damage costs, PEF cites the clause recovery of security expenditures incurred in response to the September 11, 2001 terrorist attacks, which were traditionally treated as base rate costs. Like the security costs, PEF agrees with our logic that it is important to align the recovery of the costs with the cost incurrence so that customers who benefited from the expenditures paid for them.

OPC, FIPUG, and FRF maintain that PEF's request for a cost recovery clause is an attempt to circumvent the Stipulation approved by Order No. PSC-02-0655-AS-EI, which prohibits PEF from raising its base rates prior to January 1, 2006, absent a Return on Equity (ROE) threshold. The intervenors argue that the Stipulation gave the utility an unlimited upside on earnings in exchange for foregoing base rate increases, unless PEF's ROE fell below 10%. OPC and SMW also note that there was no cost recovery clause in place at the time the costs were incurred and that the only provision for storm cost treatment was through base rates. It would therefore be inappropriate to use a clause which did not exist at the time costs were incurred to recover the costs. FRF argues that storm related costs have traditionally been recovered through base rates and that PEF's petition for relief could be considered a request for base rate relief envisioned under the Stipulation, assuming PEF's ROE fell below 10% as a result of the costs. FIPUG maintains that Commission orders clearly state that storm costs are part of base rates, citing the FPL order wherein the Commission specifically declined to implement a cost recovery clause like the one proposed by PEF in this case.

Decision to Approve Temporary Surcharge

We recognize the similarities in customer impact between styling the recovery mechanism as a "temporary surcharge" or a "cost recovery clause." However, there are some fundamental differences between the two concepts which must be recognized, and which supports that a temporary surcharge is a more appropriate mechanism.

PEF is asking for recovery for pre-determined costs which occurred prior to the adoption of the clause. Although cost recovery clauses have true-up mechanisms, they are essentially forward-looking. Rates are based on projected costs and trued-up to actual. When the current clauses were adopted, our orders specifically stated that they would be applicable only prospectively, to costs incurred after the adoption of the clause. Order No. 9974, issued April 24, 1981, in Docket No. 810050-PU, In re: Conservation Cost recovery clause, notes that Order No. 9273, issued March 7, 1980, established the energy cost conservation clause for conservation costs expected to be incurred starting January 1, 1981. Similarly, the Oil Back-out Clause was approved in Order 11210, issued September 29, 1982, in Docket No. 820001-EU, In re: Investigation of fuel cost recovery clauses of electric utilities, for recovery of costs of oil back-out projects for the period October 1, 1982 through March 31, 1983. On February 24, 1992, we issued Order 25773, in Docket No. 910794-EI, In re: Generic Investigation of the proper recovery of purchased power capacity cost by investor-owned electric utilities, establishing the Capacity Cost Recovery Clause for all utilities for costs beginning October 1992. We were even more specific in Order No. PSC-94-0044-FOF-EI, approving an environmental cost recovery clause for Gulf Power Company. In that order we said:

> One issue before us is whether it is appropriate to recover costs through the Environmental Cost Recovery Clause (ECRC) that were incurred before the effective date of the ECRC legislation. We shall only approve recovery of expenses incurred after April 13, 1993 for Gulf Power Company. Statutes are applied on a prospective basis unless there is a specific exception within the language of the statute. Thus, costs incurred prior to the effective date of the statute would not be eligible for recovery through the clause. The allowance of expenses incurred prior to the establishment of an environmental cost recovery clause is inappropriate. (Order p. 1-2)

We agree with PEF that cost recovery clauses were designed to recover costs which are volatile and unpredictable. We also agree that all four current clauses address costs that are unpredictable, volatile and irregular, due to forces outside the utility's control. The original purpose of recovery clauses was to address on-going costs which could fluctuate between rate cases and unduly penalize either the utility or customers, if such costs were included in base rates. PEF in its petition asked for a time-limited "clause," which is contrary to the concept and operation of existing clauses that address recurring costs. In addition, we agree with OPC that a true clause is not limited to a specific event. The two year limitation proposed by PEF looks more like a temporary surcharge than a recovery clause because it does not contemplate the need for such a clause on an on-going basis.

We are concerned with the precedent of establishing a specific clause for any extraordinary expense a utility might incur between rate cases. Although we have decided to include security costs in the fuel cost recovery factor, that decision was based on an immediate need to protect the health, safety and welfare of the utility and its customers, and there was a basis for believing the costs would be recurring on some level. Order No. PSC-01-2516-FOF-EI, issued December 26, 2001, in Docket No. 010001-EI, In re: Fuel and purchased power cost recovery clause and generating performance incentive factor, states:

> We believe that approving recovery of this incremental power plant security cost through the fuel clause sends an appropriate message to Florida's investor-owned electric utilities that we encourage them to protect their generation assets in extraordinary, emergency conditions as currently exist. (Order p. 4)

That Order also notes that to date, FPL was the only utility to request such recovery and that as more was known about the security costs, other recovery mechanisms might be used.

We are also concerned that using a cost recovery clause to recover a single extraordinary cost is inconsistent with the traditional application of such clauses and could create a troublesome precedent for recovering a single expense without consideration of a company's total operation. This idea of a limited proceeding has rarely been used in the electric industry for that very reason. As some costs go up, some go down, and absent extraordinary circumstances, all balancing impacts should be considered in setting rates. The fact that the storm damage reserve has been sufficient for 12 years would indicate that it is an appropriate mechanism for normal, year-to-year storm expenses. Under the previous Commission orders cited, utilities maintain the right to ask for assistance should the storm damage reserve be insufficient, as in 2004, but that ability does not translate into the need for a cost recovery clause.

If at some point in the future we wish to consider the establishment of a storm cost recovery clause for prospective expenses, in addition to or in place of the self-insurance mechanism, that is our prerogative. However, since no such clause existed prior to the incurrence of the costs to be recovered, the requested recovery period is finite and limited in nature, and such costs are not ongoing and are currently treated in base rates, we find that it is reasonable to approve a temporary surcharge mechanism for storm cost recovery instead of a recovery clause mechanism.

As discussed subsequently, the parties have stipulated that any costs approved for recovery shall be collected over a maximum period of two years. Further, the parties have stipulated that any approved mechanism be effective thirty days following our vote, and that recovery under the mechanism will begin with the first billing cycle of the following month. With the approval of these stipulations, the initial storm cost recovery factors shall be applied to PEF's cycle 1 billings beginning August 2005. Recovery will continue until the last cycle of July 2007. The parties have stipulated to the method to be used to allocate costs to the rate classes.

PEF's storm cost recovery factors shall be modified as described in the testimony of PEF witness Portuondo. PEF shall immediately file tariffs containing initial surcharge factors by rate class to be effective for cycle 1 meter readings for August 2005 and ending with the last cycle for December 2005. In conjunction with the adjustment clause filings for calendar year 2006, PEF shall file revised factors to be in effect for the period January through December of 2006. In conjunction with the adjustment clause filings for calendar year 2007, PEF shall file revised factors that will be in effect for the period January through July of 2007. Any over- or under-recovery remaining at the end of the period shall be refunded or recovered through the fuel adjustment clause. This methodology will insure the timely and accurate recovery of Commission-approved storm-related costs from PEF's customers.

As is true in any case, we maintain our authority to consider all matters relevant and germane to setting rates on a going-forward basis. If deemed appropriate, this could include a modification to the method for recovery of all or a portion of the storm restoration costs which are approved in this docket, in a subsequent rate, securitization, or other appropriate proceeding.

RATE DESIGN

Also at issue in this proceeding is the manner in which storm related costs are collected from the rate classes, which is commonly referred to as rate design. We do not address herein the manner in which costs are allocated to the rate classes, because the allocation method to be used was the subject of approved Category Two Stipulation, No. 1. PEF proposed a rate design that recovers storm costs on a per-kilowatt hour, or energy basis, from all of the rate classes. As stated in the rebuttal testimony of PEF witness Portuondo, this is the rate design that is used for all of PEF's existing recovery clauses.

In her testimony, FIPUG witness Brown advocates a rate design that would recover costs from demand-billed rate classes on a per-kilowatt basis, because most of the costs that PEF is seeking to recover are allocated to the rate classes on a demand basis. Demand-billed rate classes are those classes that bill customers based on both their energy usage, which is measured in kilowatt hours (kWh), and their maximum demand for the month, which is measured in kilowatts (kW). For PEF, these rate classes include the General Service – Demand (GSD), Curtailable (CS), and Interruptible (IS) rate schedules.

In her testimony, witness Brown develops per kW demand charges based on PEF's requested recovery and allocation of costs. However, as pointed out in the rebuttal testimony of PEF witness Portuondo, the charges do not appear to be correct because the rates are higher for transmission level metered customers than for primary and secondary distribution metered customers. In fact, higher level voltage customers should pay lower rates than lower voltage customers.

For the sake of simplicity in applying and calculating rates, we find that the per kW hour rate design proposed by PEF is adequate, and is approved. We have approved the same rate design in the capacity, environmental, and conservation cost recovery clauses, in which a substantial portion of the costs are allocated on a demand basis.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the stipulations proposed at the March 30, 2005 hearing are approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that Progress Energy Florida, Inc.'s Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc. is hereby denied. It is further

ORDERED that Progress Energy Florida, Inc., shall adjust future call center activity expenses charged to the storm reserve by the incremental difference of call load experience during and immediately after hurricanes with the actual prior 3-year average call load during the same time period involved. It is further

ORDERED that Progress Energy Florida, Inc., shall exclude future budgeted advertising and public relations expense from its storm damage reserve. It is further

ORDERED that based on the findings made herein, the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to true-up is $271,476,895 ($285,108,136 system). It is further

ORDERED that the Stipulation and Settlement, as approved in Order No. PSC-02-0655-AS-EI, shall not affect the amount or timing of recovery of incremental, prudently-incurred storm-related costs. It is further

ORDERED that Progress Energy Florida, Inc., shall be allowed to recover all reasonable and prudently incurred storm damage costs identified and approved herein. It is further

ORDERED that, based on the findings herein and the most recent commercial paper rate, the appropriate amount of storm-related costs to be recovered from the customers is $231,839,389. It is further

ORDERED that the appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery is to record the costs as a regulatory asset in a subaccount of Account 182.1, Extraordinary Property Losses. It is further

ORDERED that Progress Energy Florida, Inc., shall be allowed to charge interest at the applicable 30-day commercial paper rate on the unamortized balance of storm damage restoration costs permitted to be recovered from ratepayers. In addition, an adjustment shall be made in the calculation of interest to recognize the storm-related deferred taxes not included in the Company's upcoming rate case. It is further

ORDERED that a temporary surcharge is the appropriate mechanism for recovery of approved costs. It is further

ORDERED that Progress Energy Florida, Inc., shall immediately file tariffs containing initial surcharge factors by rate class to be effective for cycle 1 meter readings for August 2005 and ending with the last cycle for December 2005. In conjunction with the adjustment clause filings for calendar year 2006, PEF shall file revised factors to be in effect for the period January through December of 2006. In conjunction with the adjustment clause filings for calendar year 2007, PEF shall file revised factors that will be in effect for the period January through July of 2007. The surcharge factors shall be derived using updated kilowatt hour sales forecasts consistent with the three recovery periods, and shall reflect the storm-related costs, including any interest, approved herein for recovery. The two filings following the initial filing shall incorporate a true-up of estimates of costs and sales to actual costs and sales. Any over- or under-recovery remaining at the end of the period shall be refunded or recovered through the fuel adjustment clause. It is further

ORDERED that a per-kilowatt rate design shall be used by Progress Energy Florida, Inc., to recover storm-related costs from all rate classes. It is further

ORDERED that neither Progress Energy Florida, Inc.'s Study nor Order No. PSC-94-0852-FOF-EI are determinative as to this Commission's findings with respect to the costs to be appropriately charged to PEF's storm damage reserve. It is further

ORDERED that this docket shall remain open to address the true-up of the actual storm restoration costs. The docket should be closed administratively once staff has verified that the true-up is complete.

By ORDER of the Florida Public Service Commission this 14th day of July, 2005.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(SEAL)

JSB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: July 5, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI - AGENDA HELD 06/21/05.

RE: COMPLAINT AND REQUEST FOR SUMMARY DISPOSITION TO ENFORCE CONTRACT AUDIT PROVISIONS IN INTERCONNECTION AGREEMENT WITH NEWSOUTH COMMUNICATIONS CORP., BY BELLSOUTH TELECOMMUNICATIONS, INC.

COMPLAINT TO ENFORCE INTERCONNECTION AGREEMENT WITH NUVOX COMMUNICATIONS, INC. BY BELLSOUTH TELECOMMUNICATIONS, INC.

DOCUMENT No: 06065-05, 06/27/05

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

LEGAL, ECR

Acknowledged BY:

JF/rlm

Kay Flynn

041272-EZ

From: Denise Karnes

Sent: Friday, June 17, 2005 10:11 AM

To: Alina Dieguez; Allen Mortham; Beth Salak; Betty Ashby; Bev DeMello; Blanca Bayo; Bob Trapp; Braulio Baez; Bridget Hoyle; Carlotta Stauffer; Carol Purvis; Cayce Hinton; Chuck Hill; Cindy Miller; Dan Hoppe; Della Fordham; Diane Lee; Dorothy Boone; Eileen Patrick; Hurd Reeves; J. Terry Deason; Jane Faurot; Janet Brunson; Janet Harrison; Kathleen Stewart; Katrina Tew; Kay Flynn; Kay Posey; Kevin Bloom; Larry Harris; Lisa Edgar; Manuel Arisso; Martha Golden; Mary Bane; Mary Macko; Norma Jenkins; Pat Dunbar; Patsy White; Rhonda Hicks; Richard Tudor; Rick Melson; Roberta Bass; Rudy Bradley; Sandy Moses; Sharon Allbritton; Steven Stolting; Susan Howard; Tim Devlin; Todd Brown; Veronica Washington

Subject: Items of Interest at Upcoming Agenda Conference, 6/21/05

A news release was issued to the daily newspapers this morning, 6/21/05, and is now available on our web site: http://www.psc.state.fl.us/general/news/pressrelease.cfm?release=15

State of Florida

Public Service Commission

NEWS RELEASE

June 17, 2005 **Contact: 850-413-6482**

Items of Interest at Upcoming Agenda Conference, 6/21/05

TALLAHASSEE — The following items are among those scheduled for consideration by the Commission at the June 21, 2005, Agenda Conference.

ITEM 11 – DOCKET NO. 041272-EI – PETITION FOR APPROVAL OF STORM RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC. The Commission will consider a staff recommendation on the utility's request to recover costs incurred during the 2004 hurricane season.

ITEM 12 – DOCKET NO. 041375-EI – REQUEST TO EXCLUDE APRIL 11-12, 2004, OUTAGE EVENTS FROM ANNUAL DISTRIBUTION SERVICE RELIABILITY REPORT BY TAMPA ELECTRIC COMPANY. The Commission will take up a staff recommendation regarding TECO's request to exclude weather-related outages from its reliability report.

ITEM 15 – DOCKET NO. 041393-EI – PETITION FOR APPROVAL OF TWO UNIT POWER SALES AGREEMENTS WITH SOUTHERN COMPANY SERVICES, INC. The Commission will consider a staff recommendation on a proposal to extend an agreement between Progress Energy and the Southern Company for the purchase of electric power.

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Website - http://www.floridapsc.com
Kevin Bloom, Director, Office of Public Information
Additional Press Contact: Todd Brown
2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850

Kay Flynn

041272-EI

From: Denise Karnes

Sent: Tuesday, June 14, 2005 3:21 PM

To: Alina Dieguez; Allen Mortham; Beth Salak; Betty Ashby; Bev DeMello; Blanca Bayo; Bob Trapp; Braulio Baez; Bridget Hoyle; Carlotta Stauffer; Carol Purvis; Cayce Hinton; Chuck Hill; Cindy Miller; Dan Hoppe; Della Fordham; Diane Lee; Dorothy Boone; Eileen Patrick; Hurd Reeves; J. Terry Deason; Jane Faurot; Janet Brunson; Janet Harrison; Kathleen Stewart; Katrina Tew; Kay Flynn; Kay Posey; Kevin Bloom; Larry Harris; Lisa Edgar; Manuel Arisso; Martha Golden; Mary Bane; Mary Macko; Norma Jenkins; Pat Dunbar; Patsy White; Rhonda Hicks; Richard Tudor; Rick Melson; Roberta Bass; Rudy Bradley; Sandy Moses; Sharon Allbritton; Steven Stolting; Susan Howard; Tim Devlin; Todd Brown; Veronica Washington

Subject: PSC Staff Recommends Cutting Progress Storm Request By More Than $26 Million

A news release was faxed to daily newspapers throughout Florida this afternoon, 6/14/05, and is now available on our web site: http://www.psc.state.fl.us/general/news/pressrelease.cfm?release=14

State of Florida

Public Service Commission

NEWS RELEASE

June 14, 2005 **Contact: 850-413-6482**

PSC Staff Recommends Cutting Progress Storm Request By More Than $26 Million

TALLAHASSEE — Staff of the Florida Public Service Commission will recommend paring more than $26 million from Progress Energy Florida's request to recover 2004 hurricane damages when the Commission meets June 21.

In a non-binding recommendation filed Tuesday, the Commission's staff outlines reductions in payroll costs, advertising and public relations charges, vehicle and tree trimming expenses that the utility is seeking to recover from its customers through monthly surcharges on customer bills.

Progress filed a petition in 2004 contending that its electric distribution system was affected to some degree by all four of the hurricanes that made landfall in Florida in 2004. As a result, the utility claimed, it experienced $366 million in total damages, $252 million of which it contended was recoverable from rate payers.

The PSC staff recommendation will be considered by the Commission at its regularly scheduled Agenda Conference meeting June 21, during which it may accept, reject or modify the recommendation.

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Website - http://www.floridapsc.com
Kevin Bloom, Director, Office of Public Information
Additional Press Contact: Todd Brown
2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: April 22, 2005

TO: Blanca Bayó, Director, Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services

RE: DOCKET NO. 041272-EI, HEARING HELD 03/30 - 04/01/05

Attached for filing are Exhibits 1 through 54 representing a complete filing of the exhibits identified and admitted into the record during the proceedings held in the above docket.

Acknowledged BY:

JF/rlm

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: April 5, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, HEARING HELD 03/30-04/01/05 (Day 3).

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NO.: 03266-05, 205 Pages - Vol. 7

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

LEGAL, ECR

Acknowledged BY:

JF/rlm

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: April 1, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, HEARING HELD 03/30-04/01/05 (Day 2).

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NOs.:
03174-05, 77 Pages - Vol. 4
03179-05, 89 Pages - Vol. 5
03227-05, 149 Pages - Vol. 6

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

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State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: April 1, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, HEARING HELD 03/30-04/01/05 (Day 1).

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NOs.: 03125-05, 39 Pages - Vol. 1
03144-05, 160 Pages - Vol. 2
03160-05, 148 Pages - Vol. 3

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

LEGAL, ECR

Acknowledged BY:

_____

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: April 1, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, SERVICE HEARING (Tallahassee) HELD 03-30-05.

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NO.: 03124-05, 03/31/05

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

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Acknowledged BY:

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JF/rlm

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: March 29, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, SERVICE HEARING (PM) HELD 03-15-05.

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NO.: 02975-05, 03/28/05

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

LEGAL, ECR

Acknowledged BY:

JF/rlm

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: March 29, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, SERVICE HEARING (AM) HELD 03-15-05.

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NO.: 02974-05, 03/28/05

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

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Acknowledged BY:

JF/rlm

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: March 25, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, SERVICE HEARING (AM) HELD 03-17-05.

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NO.: 02931-05, 03/25/05

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

LEGAL, ECR

Acknowledged BY:

JF/rlm

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: March 25, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, SERVICE HEARING (PM) HELD 03-16-05.

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NO.: 02930-05, 03/25/05

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

LEGAL, ECR

Acknowledged BY:

JF/rlm

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: March 25, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, PREHEARING HELD 03-18-05.

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NO.: 02886-05, 03/24/05

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

LEGAL, ECR

Acknowledged BY:

JF/rlm

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: March 25, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, SERVICE HEARING (AM) HELD 03-16-05.

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NO.: 02885-05, 03/24/05

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

LEGAL, ECR

Acknowledged BY:

JF/rlm

STATE OF FLORIDA

CAPITAL CIRCLE OFFICE CENTER
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FL 32399-0850

Public Service Commission

January 25, 2005

Ms. Fazillete Gonzalez
Office of the City Clerk
Ocala City Hall
P. O. Box 1270
Ocala, FL 34478

Re: Docket No. 041272-EI - Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Dear Ms. Gonzalez:

This confirms the Florida Public Service Commission's reservation of the Ocala City Council Chambers on Tuesday, March 15, 2005 for the purpose of holding a public hearing in the above-referenced docket. The hearing will begin at 10:00 a.m., however, staff will need access to the room by 8:30 a.m. We anticipate that the hearing will end by 2:00 p.m. and expect the room to be filled to capacity with attendees.

As previously discussed, there is no charge for use of this room. A copy of the our insurance certificate is enclosed.

I appreciate the opportunity to use this facility for our hearing, and thank you for your assistance in this matter. If you have any questions, please call me at (850) 413-6008.

Sincerely,

Sandy Moses
Scheduling Coordinator

Enclosure

COMMISSIONERS:
BRAULIO L. BAEZ, CHAIRMAN
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON
LISA POLAK EDGAR

STATE OF FLORIDA

CAPITAL CIRCLE OFFICE CENTER
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FL 32399-0850

Public Service Commission

January 25, 2005

Ms. Jeanie Haley
Apopka City Hall
P. O. Box 1229
Apopka, FL 32704-1229

Re: Docket No. 041272-EI - Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne and Ivan, by Progress Energy Florida, Inc.

Dear Ms. Haley:

This confirms the Florida Public Service Commission's reservation of the Apopka City Council Chambers on Tuesday, March 15, 2005 for the purpose of holding a public hearing in the above-referenced docket. The hearing will begin at 6:00 p.m., however, staff will need access to the room by 4:00 p.m. We anticipate that the hearing will end by 9:30 p.m. and expect the room to be filled to capacity with attendees.

As previously discussed, there is no charge for use of this room. A copy of the our insurance certificate is enclosed.

I appreciate the opportunity to use this facility for our hearing, and thank you for your assistance in this matter. If you have any questions, please call me at (850) 413-6008.

Sincerely,

Sandy Moses

Sandy Moses
Scheduling Coordinator

Enclosure

COMMISSIONERS:
BRAULIO L. BAEZ, CHAIRMAN
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON
LISA POLAK EDGAR

STATE OF FLORIDA

CAPITAL CIRCLE OFFICE CENTER
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FL 32399-0850

Public Service Commission

January 25, 2005

Ms. Debbie Buchanan
Office of the Clerk
Bartow City Hall
450 N. Wilson Avenue
Bartow, FL 33830

Re: Docket No. 041272-EI - Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Dear Ms. Buchanan:

This confirms the Florida Public Service Commission's reservation of the Bartow City Commission Chambers on Wednesday, March 16, 2005 for the purpose of holding a public hearing in the above-referenced docket. The hearing will begin at 10:00 a.m., however, staff will need access to the room by 8:30 a.m. We anticipate that the hearing will end by 2:30 p.m. and expect the room to be filled to capacity with attendees.

As previously discussed, there is no charge for use of this room. A copy of the our insurance certificate is enclosed.

I appreciate the opportunity to use this facility for our hearing, and thank you for your assistance in this matter. If you have any questions, please call me at (850) 413-6008.

Sincerely,

Sandy Moses
Scheduling Coordinator

Enclosure

COMMISSIONERS:
BRAULIO L. BAEZ, CHAIRMAN
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON
LISA POLAK EDGAR

STATE OF FLORIDA

CAPITAL CIRCLE OFFICE CENTER
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FL 32399-0850

Public Service Commission

January 25, 2005

Ms. Danielle Coffman
St. Petersburg City Hall
P. O. Box 2842
St. Petersburg, FL 33731

Re: Docket No. 041272-EI - Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Dear Ms.Coffman:

This confirms the Florida Public Service Commission's arrangements for security personnel and reservation of the St. Petersburg City Council Chambers and Room 100 on Wednesday, March 16, 2005 for the purpose of holding a public hearing in the above-referenced docket. The hearing will begin at 6:00 p.m., however, staff will need access to the room by 4:30 p.m. We anticipate that the hearing will end by 9:30 p.m. and expect the room to be filled to capacity with attendees. A copy of our insurance certificate is enclosed.

As discussed, there is no charge for use of the Chambers and Room 100, but the charge for security services is $241.80, with payment due two weeks prior to the hearing.

I appreciate the opportunity to use this facility for our hearing, and thank you and Chief Whitaker for the assistance you have provided. If you have any questions regarding this matter, please call me at (850) 413-6008.

Sincerely,

Sandy Moses

Sandy Moses
Scheduling Coordinator

Enclosure

STATE OF FLORIDA

CAPITAL CIRCLE OFFICE CENTER
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FL 32399-0850

Public Service Commission

January 25, 2005

Ms. Carolyn Brink
Clearwater City Hall
112 S. Osceola Avenue
Clearwater, FL 33765

Re: Docket No. 041272-EI - Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Dear Ms. Brink:

This confirms the Florida Public Service Commission's reservation of the Clearwater City Council Chambers on Thursday, March 17, 2005 for the purpose of holding a public hearing in the above-referenced docket. The hearing will begin at 10:00 a.m., however, staff will need access to the room by 8:30 a.m. We anticipate that the hearing will end by 2:00 p.m. and expect the room to be filled to capacity with attendees.

As previously discussed, there is no charge for use of this room. A copy of the our insurance certificate is enclosed.

I appreciate the opportunity to use this facility for our hearing, and thank you for your assistance in this matter. If you have any questions, please call me at (850) 413-6008.

Sincerely,

Sandy Moses
Scheduling Coordinator

Enclosure

Kay Flynn

041272

From: Denise Karnes

Sent: Monday, March 14, 2005 11:20 AM

To: Alina Dieguez; Allen Mortham; Beth Salak; Betty Ashby; Bev DeMello; Blanca Bayo; Bob Trapp; Braulio Baez; Bridget Hoyle; Carlotta Stauffer; Carol Purvis; Cayce Hinton; Charles Davidson; Chuck Hill; Cindy Miller; Dan Hoppe; Della Fordham; Diane Lee; Dorothy Boone; Eileen Patrick; Hurd Reeves; J. Terry Deason; Jane Faurot; Janet Brunson; Janet Harrison; JoAnn Chase; Kathleen Stewart; Katrina Tew; Kay Flynn; Kay Posey; Kevin Bloom; Larry Harris; Lisa Edgar; Manuel Arisso; Martha Golden; Mary Bane; Mary Macko; Norma Jenkins; Pat Dunbar; Patsy White; Richard Tudor; Rick Melson; Roberta Bass; Rudy Bradley; Sandy Moses; Sharon Allbritton; Steven Stolting; Susan Howard; Tim Devlin; Veronica Washington

Subject: Customer Hrgs Sched. to Discuss Storm Cost Recovery Clause Pet. by Progress Energy

A news released was faxed to media in the Bartow, St. Petersburg and Clearwater areas this morning, 3/14/05, and is now available on the PSC web site: http://www.psc.state.fl.us/general/news/pressrelease.cfm?release=-2147483316

State of Florida

Public Service Commission

NEWS RELEASE

March 14, 2005 **Contact: 850-413-6482**

Customer Hearings Scheduled To Discuss Petition For A Storm Cost Recovery Clause To Recover Extraordinary Expenditures Related To Four Hurricanes By Progress Energy Florida, Inc.

TALLAHASSEE — On Wednesday, March 16, 2005, and Thursday, March 17, 2005, the staff of the Florida Public Service Commission (PSC or Commission) will conduct three of the six scheduled customer hearings to accept comments and answer questions from consumers about a petition filed by Progress Energy Florida, Inc. (PEF or utility). In its petition, PEF seeks approval of a Storm Recovery Clause that would allow it to recover extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan. The purpose of the new clause would be to recover the storm damage costs that exceeded the utility's Storm Damage Reserve during the 2004 hurricane season.

PEF serves approximately 1.5 million retail customers in its service area in Florida, which is comprised of approximately 20,000 square miles in 35 of the state's 67 counties. In addition, the utility supplies electricity at retail to approximately 350 communities and at wholesale to about 21 Florida municipalities, utilities, and power agencies.

All customers of this utility are invited to attend the hearings, which will be held at the following times and locations:

Wednesday, March 16, 2005
10:00 a.m.—2:00 p.m.
City Commission Chambers
City Hall
450 N. Wilson Avenue
Bartow, Florida

Wednesday, March 16, 2005
6:00 p.m.—9:00 p.m.
City Council Chambers, 2nd Floor
City Hall
175 5th Street North
St. Petersburg, Florida

Thursday, March 17, 2005
10:00 a.m.—2:00 p.m.
City Council Chambers, 3rd Floor
City Hall
112 S. Osceola Avenue
Clearwater, Florida

PSC staff is currently scheduled to file its recommendation to the Commission concerning this petition on June 2, 2005. The Commission is currently scheduled to consider the staff's recommendation and vote on this matter at its June 14, 2005, Agenda Conference.

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Website - http://www.floridapsc.com
Kevin Bloom, Director, Office of Public Information
2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850

Kay Flynn

041272

From: Denise Karnes

Sent: Friday, March 11, 2005 4:23 PM

To: Alina Dieguez; Allen Mortham; Beth Salak; Betty Ashby; Bev DeMello; Blanca Bayo; Bob Trapp; Braulio Baez; Bridget Hoyle; Carlotta Stauffer; Carol Purvis; Cayce Hinton; Charles Davidson; Chuck Hill; Cindy Miller; Dan Hoppe; Della Fordham; Diane Lee; Dorothy Boone; Eileen Patrick; Hurd Reeves; J. Terry Deason; Jane Faurot; Janet Brunson; Janet Harrison; JoAnn Chase; Kathleen Stewart; Katrina Tew; Kay Flynn; Kay Posey; Kevin Bloom; Larry Harris; Lisa Edgar; Manuel Arisso; Martha Golden; Mary Bane; Mary Macko; Norma Jenkins; Pat Dunbar; Patsy White; Richard Tudor; Rick Melson; Roberta Bass; Rudy Bradley; Sandy Moses; Sharon Allbritton; Steven Stolting; Susan Howard; Tim Devlin; Veronica Washington

Subject: Customer Hrgs Sched. to Discuss Storm Cost Recovery Clause Pet. by Progress Energy

A news release was faxed to media in the Ocala and Apopka areas this afternoon, 3/11/05, and is now available on the PSC web site: http://www.psc.state.fl.us/general/news/pressrelease.cfm?release=-2147483318

State of Florida

Public Service Commission

NEWS RELEASE

March 11, 2005 **Contact: 850-413-6482**

Customer Hearings Scheduled To Discuss Petition For A Storm Cost Recovery Clause To Recover Extraordinary Expenditures Related To Four Hurricanes By Progress Energy Florida, Inc.

TALLAHASSEE — On Tuesday, March 15, 2005, the staff of the Florida Public Service Commission (PSC or Commission) will conduct the first of six scheduled customer hearings to accept comments and answer questions from consumers about a petition filed by Progress Energy Florida, Inc. (PEF or utility). In its petition, PEF seeks approval of a Storm Recovery Clause that would allow it to recover extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan. The purpose of the new clause would be to recover the storm damage costs that exceeded the utility's Storm Damage Reserve during the 2004 hurricane season.

PEF serves approximately 1.5 million retail customers in its service area in Florida, which is comprised of approximately 20,000 square miles in 35 of the state's 67 counties. In addition, the utility supplies electricity at retail to approximately 350 communities and at wholesale to about 21 Florida municipalities, utilities, and power agencies.

All customers of this utility are invited to attend the hearings, which will be held at the following times and locations:

Tuesday, March 15, 2005
10:00 a.m.—2:00 p.m.
City Council Chambers
City Hall, 2nd Floor
151 SE Osceola Avenue

Tuesday, March 15, 2005
6:00 p.m.—9:00 p.m.
City Council Chambers
City Hall
120 E. Main Street

PSC staff is currently scheduled to file its recommendation to the Commission concerning this petition on June 2, 2005. The Commission is currently scheduled to consider the staff's recommendation and vote on this matter at its June 14, 2005, Agenda Conference.

Website - http://www.floridapsc.com
Kevin Bloom, Director, Office of Public Information
2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850

Kay Flynn

041272

From: Blanca Bayo
Sent: Wednesday, March 02, 2005 11:31 AM
To: Kay Flynn; Marcia Sharma; Robert Waddell; Steve Wharton; Karen Belcher; Hong Wang; Kimberly Kemp; Lee Kissell; Jane Faurot; Michael Staden; Carol Purvis
Subject: FW: Petition for Approval of a Storm Recovery Clause by Progress Energy Florida
Attachments: ProgressLegislativeBulletin.pdf

FYI. These hearings will generate lots of interest and will cause increased activity in our offices.

Note the hearing dates in Tallahassee: March 30, 31, and April 1.

From: Denise Karnes
Sent: Tuesday, March 01, 2005 1:36 PM
To: Alina Dieguez; Allen Mortham; Beth Salak; Betty Ashby; Bev DeMello; Blanca Bayo; Bob Trapp; Braulio Baez; Bridget Hoyle; Carlotta Stauffer; Carol Purvis; Cayce Hinton; Charles Davidson; Chuck Hill; Cindy Miller; Dan Hoppe; Della Fordham; Diane Lee; Dorothy Boone; Eileen Patrick; Hurd Reeves; J. Terry Deason; Jane Faurot; Janet Brunson; Janet Harrison; JoAnn Chase; Kathleen Stewart; Katrina Tew; Kay Flynn; Kay Posey; Kevin Bloom; Larry Harris; Lisa Edgar; Manuel Arisso; Martha Golden; Mary Bane; Mary Macko; Norma Jenkins; Pat Dunbar; Patsy White; Richard Tudor; Rick Melson; Roberta Bass; Rudy Bradley; Sandy Moses; Sharon Allbritton; Steven Stolting; Susan Howard; Tarik Noriega; Tim Devlin; Veronica Washington
Subject: Petition for Approval of a Storm Recovery Clause by Progress Energy Florida

The attached bulletin was created to give notice to local government officials and state legislators representing the areas in which the PSC is conducting customer service hearings later this month. This bulletin was mailed to officials in Marion and Orange counties today, 3/1/05; it will be mailed to Polk, Pinellas and Leon county officials two weeks before hearings take place in those areas, respectively.

MARCH 2005

FLORIDA PUBLIC SERVICE COMMISSION

BULLETIN

PROVIDED TO GOVERNMENT OFFICIALS

Petition for Approval of a Storm Cost Recovery Clause for the Recovery of Extraordinary Expenditures Related to Hurricanes Charley, Frances, Jeanne, and Ivan by

Progress Energy Florida, Inc.

DOCKET NO. 041272-EI

In November of 2004, Progress Energy Florida, Inc. (PEF or the company) filed a petition with the Florida Public Service Commission (PSC or Commission) for approval of a Storm Cost Recovery Clause for the recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne and Ivan. PEF petitioned the Commission to recover the storm damage costs over a period of two years. The purpose of the new clause would be to recover the storm damage costs in excess of the amount contained in the utility's Storm Damage Reserve.

PEF serves approximately 1.5 million retail customers in its service area in Florida. Its service area is comprised of approximately 20,000 square miles in 35 of the state's 67 counties. Its service area encompasses the cities of St. Petersburg and Clearwater and densely populated areas surrounding Orlando, Ocala, and Tallahassee. PEF supplies electricity at retail to approximately 350 communities and at wholesale to about 21 Florida municipalities, utilities, and power agencies.

Recognizing that full insurance for transmission and distribution facilities would result in unacceptably high electric rates after Hurricane Andrew, the Commission authorized PEF to accrue $6 million per year through base rates to provide a self-insurance program for storm damage. These funds are accumulated in PEF's Storm Damage Reserve. In August and September 2004, Hurricanes Charley, Frances, Jeanne, and Ivan struck the State of Florida. These four storms impacted virtually every county in PEF's service territory and caused over two million cumulative customer outages and millions of dollars in damages which will be applied to the Storm Damage Reserve.

For PEF, the storm related costs are currently estimated at $366.3 million on a total system basis. Of this amount, approximately $311.4 million are storm related operation and maintenance expenses. PEF expected to have a balance of $46.9 million in its Storm Damage Reserve as of December 31, 2004. After the storm damage charges are applied, the Storm Damage Reserve will have a negative balance of approximately $264.5 million. The retail portion for which PEF is requesting recovery is $251.9 million.

The impact to the average residential customer bill (1,000 kWh per month) is expected to be $3.81 for 2005 and $3.59 for 2006. These estimates are based on a start date of January 1, 2005 and could change as that date has passed.

The PSC scheduled six customer service hearings to receive customer testimony regarding the utility's petition to implement a Storm Cost Recovery Clause and to receive comments on the utility's recovery efforts for each hurricane event. In accordance with Florida Statutes, the PSC will consider the utility's quality of service and other matters in this case.

The technical portion of the administrative hearing is scheduled for March 30, 31 and April 1 in Tallahassee. A technical hearing is a legal proceeding, similar to a court proceeding or trial, that is held to gather technical evidence and testimony related to the utility's petition. In making its final determination, the Commission will consider the evidence and testimony presented by both customers and other parties.

PSC staff is scheduled to file a recommendation with the Commission on June 2, 2005. The Commissioners are expected to vote on this matter at the June 14, 2005, Agenda Conference.

CONSUMER ASSISTANCE

Petition for Approval of a Storm Cost Recovery Clause for the Recovery of Extraordinary Expenditures Related to Hurricanes Charley, Frances, Jeanne, and Ivan by

Progress Energy Florida, Inc.

DOCKET NO. 041272-EI

Any person who wishes to comment or provide information to the PSC staff may do so at the hearing, orally or in writing.

Written comments may be sent to:
Florida Public Service Commission
Division of the Commission Clerk and Administrative Services
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Your letter will be placed in the correspondence file of this docket (Docket No. 041272-EI).

You may also call the Commission's toll-free number at:
1-800-342-3552,
or dial **1-800-511-0809** to fax.
Internet E-mail:
contact@psc.state.fl.us
Internet Home Page:
www.floridapsc.com

PSC Staff and Reference Numbers

For technical questions, contact:
John Slemkewicz
(850) 413-6420

For legal questions, contact:
Jennifer Brubaker
(850) 413-6228

Customer Service Hearings

Tuesday, March 15, 2005
10:00 a.m. – 2:00 p.m.
City Council Chambers
City Hall, 2nd Floor
151 SE Osceola Avenue
Ocala, Florida

6:00 p.m. – 9:00 p.m.
City Council Chambers
City Hall
120 E. Main Street
Apopka, Florida

Wednesday, March 16, 2005
10:00 a.m. – 2:00 p.m.
City Commission Chambers
City Hall
450 N. Wilson Avenue
Bartow, Florida

6:00 p.m. – 9:00 p.m.
City Council Chambers, 2nd Floor
City Hall
175 5th Street North
St. Petersburg, Florida

Thursday, March 17, 2005
10:00 a.m. – 2:00 p.m.
City Council Chambers, 3rd Floor
City Hall
112 S. Osceola Avenue
Clearwater, Florida

Wednesday, March 30, 2005
9:30 a.m.
Florida Public Service Commission
Betty Easley Conference Center, Room 148
4075 Esplanade Way
Tallahassee, Florida

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: March 1, 2005

TO: Chairman Braulio L. Baez
Commissioner J. Terry Deason
Commissioner Rudolph "Rudy" Bradley
Commission Charles M. Davidson
Commissioner Lisa Polak Edgar

FROM: Sandy Moses, Scheduling Coordinator SM

RE: Docket No. 041272-EI - Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

The facilities listed below have been reserved for the purpose of holding customer service hearings on the dates and times shown.

March 15, 2005	
10:00 AM – 2:00 PM Ocala City Council Chambers City Hall, 2nd Floor 151 SE Osceola Avenue Contact: Fazillete Gonzalez 352-629-8504	6:00 PM – 9:00 PM Apopka City Council Chambers City Hall 120 E. Main Street Contact: Jeanie Haley 407-703-1703
March 16, 2005	
10:00 AM – 2:00 PM Bartow City Commission Chambers City Hall 450 N. Wilson Avenue Contact: Debbie Buchanan 863-534-0100	**6:00 PM – 9:00 PM** St. Petersburg City Council Chambers 2nd Floor, City Hall 175 5th Street North Contact: Danielle Coffman 727-893-7484
March 17, 2005	
10:00 AM – 2:00 PM Clearwater City Council Chambers, 3rd Floor City Hall 112 S. Osceola Avenue Contact: Carolyn Brink 727-562-4040	

For your convenience, attached are directions and maps to the locations. If you have any questions please contact me at 413-6008.

Cc: Office of General Counsel (Brubaker)
Division of Regulatory Compliance and Consumer Assistance (DeMello)
Office of Public Information (Bloom)
Division of Economic Regulation (Devlin, Willis)
Office of Hearing Reporter Services (Faurot)
Division of Commission Clerk & Administrative Services (Bayo, Purvis, Thompson, Docket File)

Attachments

ORIGINAL

Timolyn Henry

From: Marie Sapp
Sent: Friday, February 04, 2005 11:19 AM
To: 'jimliz@mymailstation.com'
Subject: PEF Petition to Replenish Storm Reserve - Docket No. [redacted]

Thank you for your comments. PEF has filed a petition to replenish the negative balance in their storm damage reserve fund bringing it to zero. The costs being presented for recovery will be audited and analyzed for prudence and reasonableness by the Public Service Commission with input from the Office of Public Council and other interveners in the case.

You may wish to attend the public hearings scheduled at various locations in the State. The locations and times can be found at the Public Service Commission website at www.psc.state.fl.us. You may present written or oral comments to the Commission at any of these hearings. Any written or oral comments will be made part of the record for the Commissioners to consider when deciding this case.

The Commission and staff are restricted from commenting on the merits of the case until after the hearings are concluded and a decision made. Again, thank you for your comments.

041272

Matilda Sanders

From: Mike Twomey [miketwomey@talstar.com]
Sent: Tuesday, February 01, 2005 3:44 PM
To: Costello, Jeanne
Cc: Filings@psc.state.fl.us; Jennifer Brubaker; tperry@mac-law.com; Vicki Gordon Kaufman; jmcwhirter@mac-law.com; chistensen.patty@leg.state.fl.us
Subject: Re: Docket No. 041272 Stewart testimony

Sugarmill s Stewart tes Sugarmill Progress Er

All,

Attached is Steve Stewart's testimony filed on behalf of Hansen/Sugarmill Woods yesterday as well as the cert. of service.

Sorry I am late getting this to you folks but I went straight to bed with cold/flu after correcting the testimony, didn't mail it or email it before conking out.

The paper copies of the certificate of service have been inked to reflect a service date of day, Feb. 1, although I think I neglected the change on one copy.

Sorry for the delay and any inconvenience.

Mike Twomey

>

Kay Flynn

04/272

From: Denise Karnes

Sent: Thursday, January 27, 2005 11:36 AM

To: Alina Dieguez; Allen Mortham; Beth Salak; Betty Ashby; Bev DeMello; Blanca Bayo; Bob Trapp; Braulio Baez; Bridget Hoyle; Carlotta Stauffer; Carol Purvis; Cayce Hinton; Charles Davidson; Chuck Hill; Cindy Miller; Dan Hoppe; Della Fordham; Diane Lee; Dorothy Boone; Eileen Patrick; Hurd Reeves; J. Terry Deason; Jane Faurot; Janet Brunson; Janet Harrison; JoAnn Chase; Kathleen Stewart; Katrina Tew; Kay Flynn; Kay Posey; Kevin Bloom; Larry Harris; Lisa Edgar; Manuel Arisso; Martha Golden; Mary Bane; Mary Macko; Norma Jenkins; Pat Dunbar; Patsy White; Richard Tudor; Rick Melson; Roberta Bass; Rudy Bradley; Sandy Moses; Sharon Allbritton; Steven Stolting; Susan Howard; Tarik Noriega; Tim Devlin; Veronica Washington

Subject: Locations Set for Progress Energy Florida and Florida Power & Light Storm Recovery Customer Hearings

Two news releases were sent this morning to daily newspapers throughout Florida, one for the Progress Energy hearings and one for the FP&L hearings. Both have been posted to the PSC web site and can be viewed by clicking here:

http://www.psc.state.fl.us/

State of Florida

Public Service Commission

NEWS RELEASE

January 27, 2005 **Contact: 850-413-6482**

Locations Set For Progress Energy Florida Storm Recovery Customer Hearings

TALLAHASSEE — The Florida Public Service Commission has set the locations for the 6 customer hearings that will be held in connection with a petition filed by Progress Energy Florida, Inc. (Progress or utility) to recover damages from a series of four hurricanes in 2004.

These hearings will be conducted in areas of the utility's service territory that were affected the most by the storms. All customers of Progress are invited to attend the hearings, which will be held at the following times and locations:

Tuesday, March 15, 2005
10:00 a.m.—2:00 p.m.
City Council Chambers
City Hall, 2nd Floor
151 SE Osceola Avenue
Ocala, Florida

Tuesday, March 15, 2005
6:00 p.m.—9:00 p.m.
City Council Chambers
City Hall
120 E. Main Street
Apopka, Florida

Wednesday, March 16, 2005
10:00 a.m.—2:00 p.m.
City Commission Chambers
City Hall
450 N. Wilson Avenue
Bartow, Florida

Wednesday, March 16, 2005
6:00 p.m.—9:00 p.m.
City Countil Chambers, 2nd Floor
City Hall
175 5th Street North
St. Petersburg, Florida

Thursday, March 17, 2005
10:00 a.m.—2:00 p.m.
City Council Chambers, 3rd Floor
City Hall
112 S. Osceola Avenue
Clearwater, Florida

Wednesday, March 30, 2005
9:30 a.m.
Florida Public Service Commission
Betty Easley Conference Center,
Room 148
4075 Esplanade Way
Tallahassee, Florida

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Website - http://www.floridapsc.com
Kevin Bloom, Director, Office of Public Information
Additional Press Contact: Tarik Noriega
2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850

Kay Flynn

04/272-EI

From: Denise Karnes

Sent: Friday, January 14, 2005 3:25 PM

To: Alina Dieguez; Allen Mortham; Beth Salak; Betty Ashby; Bev DeMello; Blanca Bayo; Bob Trapp; Braulio Baez; Bridget Hoyle; Carlotta Stauffer; Carol Purvis; Cayce Hinton; Charles Davidson; Chuck Hill; Cindy Miller; Dan Hoppe; Della Fordham; Diane Lee; Dorothy Boone; Eileen Patrick; Hurd Reeves; J. Terry Deason; Jane Faurot; Janet Brunson; Janet Harrison; JoAnn Chase; Kathleen Stewart; Katrina Tew; Kay Flynn; Kay Posey; Kevin Bloom; Larry Harris; Lisa Edgar; Manuel Arisso; Martha Golden; Mary Bane; Mary Macko; Norma Jenkins; Pat Dunbar; Patsy White; Richard Tudor; Rick Melson; Roberta Bass; Rudy Bradley; Sandy Moses; Sharon Allbritton; Steven Stolting; Susan Howard; Tarik Noriega; Tim Devlin; Veronica Washington

Subject: Commission to Conduct Storm Recovery Hearings

A news release was faxed to the daily newspapers this afternoon, 1/14/05, and has been posted to the PSC web site: http://www.psc.state.fl.us/general/news/pressrelease.cfm?release=-2147483323

State of Florida

Public Service Commission

NEWS RELEASE

January 14, 2005 **Contact: 850-413-6482**

Commission to Conduct Storm Recovery Hearings

TALLAHASSEE — The Florida Public Service Commission will conduct a series of 12 customer hearings in connection with petitions filed by Florida Power & Light (FP&L) and Progress Energy Florida (Progress) to recover damages from a series of three hurricanes in 2004.

The hearings, which will be conducted in March for Progress and April for FP&L, will be held in areas of the state most affected by Hurricanes Charley, Frances and Jeanne.

Commission Chairman Braulio Baez said, "The entire state was affected in some way, but our priority, given the limited time available, is to hear from consumers in the areas hardest hit. Customer hearings are for fact-finding and we tend to get unvarnished testimony from people whose service was most severely impacted."

Specific sites have yet to be determined. Hearings will be conducted in the following cities at the following times:

Progress Energy Florida Hearings	Florida Power & Light Hearings
Ocala March 15, 10a.m.-2p.m.	Port Charlotte April 6, 10a.m.-2p.m.
Apopka March 15, 6p.m.-9p.m.	Fort Myers April 6, 6p.m.-9p.m.
Bartow March 16, 10a.m.-2p.m.	Daytona Beach April 11, 4p.m.-8p.m.
St. Petersburg March 16, 6p.m.-9p.m.	Melbourne April 12, 10a.m.-2p.m.
Clearwater March 17, 10a.m.-2p.m.	Stuart April 13, 10a.m.-2p.m.
Tallahassee March 30, 9:30 a.m.	West Palm Beach April 13, 6p.m.-8p.m.

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Website - http://www.floridapsc.com
Kevin Bloom, Director, Office of Public Information
Additional Press Contact: Tarik Noriega
2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: January 13, 2005

TO: Blanca S. Bayó, Director, Division of the Commission Clerk and Administrative Services

FROM: Jane Faurot, Chief, Office of Hearing Reporter Services, Division of the Commission Clerk and Administrative Services

RE: DOCKET NO. 041272-EI, AGENDA HELD 01/04/05.

RE: PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC.

DOCUMENT NO: 00383-05, 01/11/05

The transcript for the above proceedings has been completed and is forwarded for placement in the docket file, including attachments.

Please note that Staff distribution of this transcript was made to:

LEGAL, ECR

Acknowledged BY:

JF/rlm

Kay Flynn

041272

From: Denise Karnes

Sent: Thursday, December 30, 2004 9:24 AM

To: Alina Dieguez; Allen Mortham; Beth Salak; Betty Ashby; Bev DeMello; Blanca Bayo; Bob Trapp; Braulio Baez; Bridget Hoyle; Carlotta Stauffer; Carol Purvis; Cayce Hinton; Charles Davidson; Chuck Hill; Cindy Miller; Dan Hoppe; Della Fordham; Diane Lee; Dorothy Boone; Eileen Patrick; Hurd Reeves; J. Terry Deason; Jane Faurot; Janet Brunson; Janet Harrison; JoAnn Chase; Kathleen Stewart; Katrina Tew; Kay Flynn; Kay Posey; Kevin Bloom; Larry Harris; Lisa Edgar; Manuel Arisso; Martha Golden; Mary Bane; Mary Macko; Norma Jenkins; Pat Dunbar; Patsy White; Richard Tudor; Rick Melson; Roberta Bass; Rudy Bradley; Sandy Moses; Sharon Allbritton; Steven Stolting; Susan Howard; Tarik Noriega; Tim Devlin; Veronica Washington

Subject: Items of Interest at Upcoming Agenda Conference, 1/4/05

A news release has been sent to Florida daily newspapers this morning, 12/30/04, and is available on the PSC web site: http://www.psc.state.fl.us/general/news/pressrelease.cfm?release=-2147483327

State of Florida

Public Service Commission

NEWS RELEASE

December 30, 2004 **Contact: 850-413-6482**

Items of Interest at Upcoming Agenda Conference, 1/4/05

TALLAHASSEE — The following items are among those scheduled for consideration by the Commission at the January 4, 2005, Agenda Conference.

ITEM 5 – DOCKET NO. 020896-WS – PETITION BY CUSTOMERS OF ALOHA UTILITIES, INC. FOR DELETION OF PORTION OF TERRITORY IN SEVEN SPRINGS AREA IN PASCO COUNTY.
DOCKET NO. 010503-WU – APPLICATION FOR INCREASE IN WATER RATES FOR SEVEN SPRINGS SYSTEM IN PASCO COUNTY BY ALOHA UTILITIES, INC. The Commission will address two motions filed by Aloha Utilities, Inc. regarding the petition for deletion of territory and the production of certain documents requested through discovery.

ITEM 6 – DOCKET NO. 020896-WS – PETITION BY CUSTOMERS OF ALOHA UTILITIES, INC. FOR DELETION OF PORTION OF TERRITORY IN SEVEN SPRINGS AREA IN PASCO COUNTY. The Commission will determine what action, if any, should be taken in the event that Aloha Utilities, Inc.'s motion regarding the petition for deletion of territory is granted.

ITEM 7 – DOCKET NO. 041272-EI – PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR RECOVERY OF EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN, BY PROGRESS ENERGY FLORIDA, INC. The Commission will review its staff's recommendation regarding a joint motion filed by the Office of Public Counsel and the Florida Industrial Power Users Group. In addition, the Commission will consider Progress Energy Florida, Inc.'s response to the joint motion.

ITEM 8 – DOCKET NO. 041291-EI – PETITION FOR AUTHORITY TO RECOVER PRUDENTLY INCURRED STORM RESTORATION COSTS RELATED TO 2004 STORM SEASON THAT EXCEED STORM RESERVE BALANCE, BY FLORIDA POWER & LIGHT COMPANY. The Commission will address its staff's recommendation regarding a joint motion filed by the Office of Public Counsel and the Florida Industrial Power Users Group. In addition, the Commission will consider Florida Power & Light Company's response to the joint motion and evaluate issues relevant to the utility's request for preliminary surcharges to recover expenses incurred during the 2004 storm season.

ITEM 9 – DOCKET NO. 040001-EI – FUEL AND PURCHASED POWER COST RECOVERY CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR. The Commission will determine whether three power sales agreements between Florida Power & Light Company and Southern Company should be approved for cost recovery purposes.

###

Website - http://www.floridapsc.com
Kevin Bloom, Director, Office of Public Information
Additional Press Contact: Tarik Noriega
2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850

STATE OF FLORIDA

DIVISION OF THE COMMISSION
CLERK & ADMINISTRATIVE
SERVICES
BLANCA S. BAYÓ
DIRECTOR
(850) 413-6770 (CLERK)
(850) 413-6330 (ADMIN)

Public Service Commission

November 4, 2004

James Michael Walls, Esquire
Carlton Fields
Post Office Box 3239
Tampa, Florida 33607-5736

ADMINISTRATIVE

Re: Docket No. 041272-EI

Dear Mr. Walls:

This will acknowledge receipt of a petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc., which was filed in this office on November 2, 2004, and assigned the above-referenced docket number. Appropriate staff members will be advised.

Mediation may be available to resolve any dispute in this docket. If mediation is conducted, it does not affect a substantially interested person's right to an administrative hearing. For more information, contact the Office of General Counsel at (850) 413-6248 or FAX (850) 413-7180.

Bureau of Records

I:\Records\acklet-no-app.doc

Case Assignment and Scheduling Record

Section 1 - Bureau of Records Complete

Docket No. 041272-EI Date Docketed: 11/02/2004 Title: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Company: Progress Energy Florida, Inc.

FPSC, CLK - CORRESPONDENCE
Administrative Parties Consumer
DOCUMENT NO. 05266-07
DISTRIBUTION:

Official Filing Date: _____ Expiration: _____
Last Day to Suspend: _____
Referred to:
("()" indicates OPR)

CCA	CMP	(ECR)	FLL	GCL	MMS	PIF	RCA	SCR
		X		X				

Section 2 - OPR Completes and returns to CCA in 10 workdays.

Program Module A3; A19

Time Schedule

WARNING: THIS SCHEDULE IS AN INTERNAL PLANNING DOCUMENT
IT IS TENTATIVE AND SUBJECT TO REVISION.
FOR UPDATES CONTACT THE RECORDS SECTION:(850) 413-6770

Staff Assignments

OPR Staff

Staff Counsel

OCRs

[0] Current CASR revision level

		Due Dates Previous	Current
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Recommended assignments for hearing and/or deciding this case:

Full Commission ___ Commission Panel ___
Hearing ___ Staff ___

Date filed with CCA: _____

Initials OPR _____
Staff Counsel _____

Section 3 - Chairman Completes

Assignments are as follows:

- Hearing Officer(s)

Commissioners						Hrg Exam	Staff
ALL	BZ	DS	JB	BD	DV		

Prehearing Officer

Commissioners					ADM
BZ	DS	JB	BD	DV	

Where panels are assigned the senior Commissioner is Panel Chairman: the identical panel decides the case.
Where one Commissioner, a Hearing Examiner or a Staff Member is assigned the full Commission decides the case.

Approved: _____
Date:

PSC/CCA015-C (Rev. 01/03)

* COMPLETED EVENTS

Case Assignment and Scheduling Record

Section 1 - Bureau of Records Completes

Docket No. 041272-EI Date Docketed: 11/02/2004 Title: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Company: Progress Energy Florida, Inc.

Official Filing Date: _____ Expiration: _____

Last Day to Suspend: _____

Referred to: ("()" indicates OPR)	CCA	CMP	(ECR)	FLL	GCL	MMS	PIF	RCA	SCR
			X		X			X	

Section 2 - OPR Completes and returns to CCA in 10 workdays.

Program Module A3; A19

Time Schedule

WARNING: THIS SCHEDULE IS AN INTERNAL PLANNING DOCUMENT IT IS TENTATIVE AND SUBJECT TO REVISION. FOR UPDATES CONTACT THE RECORDS SECTION: (850) 413-6770

Staff Assignments

OPR Staff: J Slemkewicz; T Ballinger, J Breman; B Gardner, C Kenny; C Kummer, A Maurey; B McNulty, J McRoy; D Wheeler, M Willis

Staff Counsel: J Brubaker

OCRs (RCA): J Ruehl, D Vandiver

[0] Current CASR revision level

		Due Dates Previous	Current
1.	1st Set of Interrogatories Issued	NONE	11/24/2004
2.	Revised CASR Due	NONE	12/10/2004
3.			
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Recommended assignments for hearing and/or deciding this case:

Full Commission _X_ Commission Panel __
Hearing ___ Staff __

Date filed with CCA: 11/15/2004

Initials OPR _____
Staff Counsel _____

Section 3 - Chairman Completes

Assignments are as follows:

- Hearing Officer(s)

Commissioners						Hrg Exam	Staff
ALL	BZ	DS	JB	BD	DV		
X							

Prehearing Officer

Commissioners					ADM
BZ	DS	JB	BD	DV	
				X	

Where panels are assigned the senior Commissioner is Panel Chairman: the identical panel decides the case.
Where one Commissioner, a Hearing Examiner or a Staff Member is assigned the full Commission decides the case.

Approved: BB/hm
Date: 11/15/2004

PSC/CCA015-C (Rev. 01/03)

* COMPLETED EVENTS

Case Scheduling/Rescheduling Advice

Last Revised 11/09/2004 at 09:20

Printed on 11/23/2004 at 08:58

To:

[X] Commissioner Deason	[X] Deputy Executive Director/EXA	[X] Economic Regulation Director
[X] Commissioner Jaber	[X] General Counsel Director	[ ] External Affairs Director
[X] Commissioner Bradley	[X] Auditing & Safety Director	[X] Court Reporter
[X] Commissioner Davidson	[X] Comm. Clerk & ADM Services	[X] Staff Contact - Richard Melson
[X] Executive Director	[ ] Competitive Markets/Enforcement	[ ]
[X] Public Information Officer	[X] Consumer Affairs Director	[ ]

From: Office of Chairman Braulio Baez

Docket Number: 041272-EI

Docket Title: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

1. Schedule Information

Event	Former Date	New Date	Location	Time
Prehearing Conference		03/14/2005	Tallahassee, Room 148	1:30 PM - 3:00 PM
Hearing		03/30/2005	Tallahassee, Room 148	9:30 AM - 5:00 PM
Hearing		03/31/2005	Tallahassee, Room 148	9:30 AM - 5:00 PM
Hearing		04/01/2005	Tallahassee, Room 148	9:30 AM - 5:00 PM

2. Hearing/Prehearing Assignment Information

Hearing Officers

Former Assignments

Commissioners						Hearing Exam.	Staff
ALL	BZ	DS	JB	BD	DV		

Current Assignments

Commissioners						Hearing Exam.	Staff
ALL	BZ	DS	JB	BD	DV		
X							

Prehearing Officer

Commissioners					
BZ	DS	JB	BD	DV	ADM

Commissioners					
BZ	DS	JB	BD	DV	ADM
				X	

Reason for Revision: A. New Assignment 1. Unavailability 2. Good Cause 3. Recused 4. Disqualified 5. See Remarks

Remarks:

Case Scheduling/Rescheduling Advice

Last Revised 01/14/2005 at 08:17

Printed on 01/14/2005 at 09:35

To:

- [X] Commissioner Deason
- [X] Commissioner Bradley
- [X] Commissioner Davidson
- [X] Commissioner Edgar
- [X] Executive Director
- [X] Public Information Officer
- [X] Deputy Executive Director/EXA
- [X] General Counsel Director
- [X] Auditing & Safety Director
- [X] Comm. Clerk & ADM Services
- [ ] Competitive Markets/Enforcement
- [X] Consumer Affairs Director
- [X] Economic Regulation Director
- [ ] External Affairs Director
- [X] Court Reporter
- [X] Staff Contact - Richard Melson
- [ ]
- [ ]

From: Office of Chairman Braulio Baez

Docket Number: 041272-EI

Docket Title: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

1. Schedule Information

Event	Former Date	New Date	Location	Time
Hearing		03/31/2005	Tallahassee, Room 148	9:30 AM - 5:00 PM
Hearing		04/01/2005	Tallahassee, Room 148	9:30 AM - 5:00 PM

2. Hearing/Prehearing Assignment Information

Hearing Officers

Former Assignments

Commissioners						Hearing Exam.	Staff
ALL	BZ	DS	BD	DV	ED		

Current Assignments

Commissioners						Hearing Exam.	Staff
ALL	BZ	DS	BD	DV	ED		
X							

Prehearing Officer

Commissioners					
BZ	DS	BD	DV	ED	ADM

Commissioners					
BZ	DS	BD	DV	ED	ADM
			X		

Reason for Revision: A. New Assignment 1. Unavailability 2. Good Cause 3. Recused 4. Disqualified 5. See Remarks

Remarks: The Tallahassee service hearing will be held at the beginning of the technical hearing.

Case Scheduling/Rescheduling Advice

Last Revised 01/14/2005 at 08:17

Printed on 01/14/2005 at 09:35

To:

[X] Commissioner Deason	[X] Deputy Executive Director/EXA	[X] Economic Regulation Director
[X] Commissioner Bradley	[X] General Counsel Director	[ ] External Affairs Director
[X] Commissioner Davidson	[X] Auditing & Safety Director	[X] Court Reporter
[X] Commissioner Edgar	[X] Comm. Clerk & ADM Services	[X] Staff Contact - Richard Melson
[X] Executive Director	[ ] Competitive Markets/Enforcement	[ ]
[X] Public Information Officer	[X] Consumer Affairs Director	[ ]

From: Office of Chairman Braulio Baez

Docket Number: 041272-EI

Docket Title: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

1. Schedule Information

Event	Former Date	New Date	Location	Time
Service Hearing		03/15/2005	Ocala	10:00 AM - 2:00 PM
Service Hearing		03/15/2005	Orange County	6:00 PM - 9:00 PM
Service Hearing		03/16/2005	Polk County	10:00 AM - 2:00 PM
Service Hearing		03/16/2005	St. Petersburg	6:00 PM - 9:00 PM
Service Hearing		03/17/2005	Clearwater	10:00 AM - 2:00 PM
Hearing		03/30/2005	Tallahassee, Room 148	9:30 AM - 5:00 PM

2. Hearing/Prehearing Assignment Information

Hearing Officers

Former Assignments

Commissioners						Hearing Exam.	Staff
ALL	BZ	DS	BD	DV	ED		

Current Assignments

Commissioners						Hearing Exam.	Staff
ALL	BZ	DS	BD	DV	ED		
X							

Prehearing Officer

Commissioners					
BZ	DS	BD	DV	ED	ADM

Commissioners					
BZ	DS	BD	DV	ED	ADM
			X		

Reason for Revision: A. New Assignment 1. Unavailability 2. Good Cause 3. Recused 4. Disqualified 5. See Remarks

Remarks: The Tallahassee service hearing will be held at the beginning of the technical hearing.

Case Scheduling/Rescheduling Advice

Last Revised 02/21/2005 at 11:24

Printed on 02/22/2005 at 08:45

To:

[X] Commissioner Deason	[X] Deputy Executive Director/EXA	[X] Economic Regulation Director
[X] Commissioner Bradley	[X] General Counsel Director	[ ] External Affairs Director
[X] Commissioner Davidson	[X] Auditing & Safety Director	[X] Court Reporter
[X] Commissioner Edgar	[X] Comm. Clerk & ADM Services	[X] Staff Contact - Richard Melson
[X] Executive Director	[ ] Competitive Markets/Enforcement	[ ]
[X] Public Information Officer	[X] Consumer Affairs Director	[ ]

From: Office of Chairman Braulio Baez

Docket Number: 041272-EI

Docket Title: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

1. Schedule Information

Event	Former Date	New Date	Location	Time
Prehearing Conference	03/14/2005	03/18/2005	Tallahassee, Room 148	9:30 AM - 11:00 AM

2. Hearing/Prehearing Assignment Information

Hearing Officers

Former Assignments

Commissioners						Hearing Exam.	Staff
ALL	BZ	DS	BD	DV	ED		

Current Assignments

Commissioners						Hearing Exam.	Staff
ALL	BZ	DS	BD	DV	ED		
X							

Prehearing Officer

Commissioners					
BZ	DS	BD	DV	ED	ADM

Commissioners					
BZ	DS	BD	DV	ED	ADM
			X		

Reason for Revision: A. New Assignment 1. Unavailability 2. Good Cause 3. Recused 4. Disqualified 5. See Remarks

Remarks: The Tallahassee service hearing will be held at the beginning of the technical hearing.

Case Assignment and Scheduling Record

Section 1 - Bureau of Records Completes

Docket No. 041272-EI Date Docketed: 11/02/2004 Title: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Company: Progress Energy Florida, Inc.

Official Filing Date: _____ Expiration: _____

Last Day to Suspend: _____

Referred to: ("()" indicates OPR)	CCA	CMP	(ECR)	FLL	GCL	MMS	PIF	RCA	SCR
			X		X			X	

Section 2 - OPR Completes and returns to CCA in 10 workdays.

Program Module A3; A19

Staff Assignments

OPR Staff	J Slemkewicz
	T Ballinger, J Breman
	L Colson, B Fletcher
	B Gardner, D Greene
	T Joyce, C Kenny
	C Kummer, J Kyle, D Lee
	A Maurey, B McNulty
	J McRoy, J Revell
	D Wheeler, M Willis
Staff Counsel	J Brubaker, J Rodan
OCRs (RCA)	J Rohrbacher, D Vandiver

Recommended assignments for hearing and/or deciding this case:

Full Commission _X_ Commission Panel __
Hearing ___ Staff __

Date filed with CCA: 02/28/2005

Initials OPR _____
Staff Counsel _____

Time Schedule

WARNING: THIS SCHEDULE IS AN INTERNAL PLANNING DOCUMENT IT IS TENTATIVE AND SUBJECT TO REVISION. FOR UPDATES CONTACT THE RECORDS SECTION: (850) 413-6770

[2] Current CASR revision level

		Due Dates Previous	Current
1.	Testimony - Rebuttal	SAME	02/22/2005
2.	Notice of Prehearing	SAME	02/28/2005
3.	Prehearing Statements	SAME	03/01/2005
4.	Service Hearing - Ocala	SAME	03/15/2005
5.	Service Hearing - Orange County	SAME	03/15/2005
6.	Service Hearing - Polk County	SAME	03/16/2005
7.	Service Hearing - St. Petersburg	SAME	03/16/2005
8.	Notice of Hearing	SAME	03/16/2005
9.	Service Hearing - Clearwater	SAME	03/17/2005
10.	Prehearing	03/14/2005	03/18/2005
11.	Hearing (03/30,31 and 04/01/05)	SAME	03/30/2005
12.	Briefs Due	SAME	04/19/2005
13.	Staff Recommendation	SAME	06/02/2005
14.	Agenda	SAME	06/14/2005
15.	Standard Order	SAME	07/05/2005
16.	Close Docket or Revise CASR	SAME	07/29/2005
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Section 3 - Chairman Completes

Assignments are as follows: CSRA

- Hearing Officer(s)

Commissioners						Hrg Exam	Staff
ALL	BZ	DS	BD	DV	ED		
X							

Prehearing Officer

Commissioners					ADM
BZ	DS	BD	DV	ED	
			X		

Where panels are assigned the senior Commissioner is Panel Chairman: the identical panel decides the case.
Where one Commissioner, a Hearing Examiner or a Staff Member is assigned the full Commission decides the case.

Approved: 1313/fmw
Date: 02/28/2005

PSC/CCA015-C (Rev. 01/03) * COMPLETED EVENTS

Case Assignment and Scheduling Record

Section 1 - Bureau of Records Complete

Docket No. 041272-EI Date Docketed: 11/02/2004 Title: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Company: Progress Energy Florida, Inc.

Official Filing Date: _____ Expiration: _____

Last Day to Suspend: _____

Referred to: ("()" indicates OPR)	CCA	CMP	(ECR)	GCL	PIF	RCA	SCR	SGA
			X	X		X		

Section 2 - OPR Completes and returns to CCA in 10 workdays.

Program Module A3; A19

Staff Assignments

OPR Staff: J Slemkewicz, E Draper; B Gardner, C Kummer; A Maurey, B McNulty; C Romig, M Springer; M Willis

Staff Counsel: J Brubaker

OCRs (RCA): J Rohrbacher, D Vandiver

Time Schedule

WARNING: THIS SCHEDULE IS AN INTERNAL PLANNING DOCUMENT IT IS TENTATIVE AND SUBJECT TO REVISION. FOR UPDATES CONTACT THE RECORDS SECTION: (850) 413-6770

[3] Current CASR revision level

		Due Dates Previous	Current
1.	Staff Recommendation	NONE	08/17/2006
2.	Agenda	NONE	08/29/2006
3.	PAA Order	NONE	09/18/2006
4.	Close Docket or Revise CASR	NONE	10/31/2006
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Recommended assignments for hearing and/or deciding this case:

Full Commission ___ Commission Panel X
Hearing Examiner ___ Staff ___

Date filed with CCA: 05/16/2006

Initials OPR _____
Staff Counsel _____

Section 3 - Chairman Completes Assignments are as follows:

- Hearing Officer(s)

Commissioners						Hrg Exam	Staff
ALL	ED	DS	AR	CT	TW		
	X	X					

Prehearing Officer

Commissioners					ADM
ED	DS	AR	CT	TW	
	X				

Where panels are assigned the senior Commissioner is Panel Chairman: the identical panel decides the case.
Where one Commissioner, a Hearing Examiner or a Staff Member is assigned the full Commission decides the case.

Approved: ED Hinds
Date: 05/16/2006

PSC/CCA015-C (Rev. 01/03) * COMPLETED EVENTS

Matilda Sanders PSC-06-0875-CO-EI

From:	**Patti Zellner**
Sent:	**Tuesday, October 24, 2006 9:45 AM**
To:	**CCA - Orders / Notices**
Subject:	**Order / Notice Submitted**
Date and Time:	**10/24/2006 9:45:00 AM**
Docket Number:	**041272-EI**
Filename / Path:	**041272-co.jsb.doc**

2

CONSUMMATING ORDER

7|3

Matilda Sanders PSC-06-0772-PAA-EI

From: LaSandra Givens
Sent: Monday, September 18, 2006 11:43 AM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 9/18/2006 11:40:00 AM
Docket Number: 041272-EI
Filename / Path: 041272.PAA.JSB.DOC

38 p
attach's not online

PAA ORDER APPROVING STIPULATION AND SETTLEMENT AGREEMENT

32 PAGES OF ATTACHMENTS THAT ARE NOT ON-LINE

I AM ON MY WAY WITH THE HARD COPY

THANKS

12 mailed.

Timolyn Henry

PSC-05-0832-FOF-EI

RECEIVED-FPSC
AUG 16 PM 4:12
COMMISSION
CLERK

From: Janice Banka
Sent: Tuesday, August 16, 2005 4:06 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 8/16/2005 4:04:00 PM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272-ORDER-8-16.mah.doc
Order Type: Signed / Hand Deliver

Order Vacating Automatic Stay, with attachment. (attachment not on-line)

Number of pages in order - 3.

I AM BRINGING THIS ORDER DOWN IN THE NEXT FEW MINUTES. KAY IS AWARE OF THIS. THANKS "J"

Janice R. Banka
Deputy Clerk
Florida Public Service Commission
Office of the General Counsel
Economic Regulation Section
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
850-413-6210 (voice)
850-413-6211 (fax)
jbanka@psc.state.fl.us

12 mailed

Matilda Sanders

0748-FOF

42

From: Patti Zellner
Sent: Thursday, July 14, 2005 1:17 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 7/14/2005 1:16:00 PM
Docket Number: 041272-EI
Filename / Path: 041272POST-order.jsb.doc

FINAL ORDER DECLINING TO ESTABLISH A STORM COST RECOVERY CLAUSE, AND APPROVING TEMPORARY SURCHARGE FOR 2004 STORM COST RECOVERY

12 mailed
Clerk.

Marguerite Lockard PSC-05-0596-CFO-EI

RECEIVED-FPSC

MAY 27 AM 10:54

COMMISSION CLERK

From: Janice Banka
Sent: Thursday, May 26, 2005 4:27 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 5/26/2005 4:26:00 PM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272confid.1.jar.doc
Order Type: Signed / Hand Deliver

Order Denying Request for Confidential Classification.

Number of pages in order - 3.

Thanks "J"

Janice R. Banka
Deputy Clerk
Florida Public Service Commission
Office of the General Counsel
Economic Regulation Section
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
850-413-6210 (voice)
850-413-6211 (fax)
jbanka@psc.state.fl.us

5/3

Mailed with PSC-05-0595.

Marguerite Lockard

PSC-05-0595-CFO-EI

RECEIVED-FPSC
05 MAY 27 AM 10:54
COMMISSION CLERK

From: Janice Banka
Sent: Thursday, May 26, 2005 4:29 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 5/26/2005 4:27:00 PM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272confid.3.jar.doc
Order Type: Signed / Hand Deliver

Order Denying ~~Request~~ for Confidential Classification.

Number of pages in order - 3.

Thanks "J"

Janice R. Banka
Deputy Clerk
Florida Public Service Commission
Office of the General Counsel
Economic Regulation Section
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
850-413-6210 (voice)
850-413-6211 (fax)
jbanka@psc.state.fl.us

5/3
mailed with
PSC-05-0596

Matilda Sanders

0345-CFO

From: Janice Banka
Sent: Wednesday, March 30, 2005 10:28 AM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

10

Date and Time: 3/30/2005 10:26:00 AM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272confid.2.jar.doc
Order Type: Signed / Hand Deliver

Order Granting Request for Confidential Classification (Doc. #01814-05).

Number of pages in order - 10.

Thanks "J"

Janice R. Banka
Deputy Clerk
Florida Public Service Commission
Office of the General Counsel
Economic Regulation Section
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
850-413-6210 (voice)
850-413-6211 (fax)
jbanka@psc.state.fl.us

5/3

Matilda Sanders PSC-05-0344-PCO-EI

From: Patti Zellner
Sent: Tuesday, March 29, 2005 12:56 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

2 pgs

Date and Time: 3/29/2005 12:55:00 PM
Docket Number: 041272-EI
Filename / Path: 041272OrdGrantInterv.jsb.doc

ORDER GRANTING INTERVENTION

5/3

Matilda Sanders 0340-CFO

RECEIVED-FPSC

05 MAR 28 PM 1:24

COMMISSION
CLERK

From: Janice Banka
Sent: Monday, March 28, 2005 11:53 AM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 3/28/2005 11:52:00 AM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272or2.jar.doc
Order Type: Signed / Hand Deliver

Order Granting Request for Confidential Classification (Doc. # 02587-05).

Number of pages in order - 8.

Thanks "J"

Janice R. Banka
Deputy Clerk
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2540 Shumard Oak Blvd.
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850-413-6210 (voice)
850-413-6211 (fax)
jbanka@psc.state.fl.us

5/3

Matilda Sanders

0339-PHO

35

From: Patti Zellner
Sent: Monday, March 28, 2005 10:30 AM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 3/28/2005 10:29:00 AM
Docket Number: 041272-EI
Filename / Path: 041272PrehearingORDER.jsb.doc
Order Type: Signed / Hand Deliver

PREHEARING ORDER

5 mailed
4 pick-ups
(Twomey / McWhirter
Progress / OPC)

Timolyn Henry PSC-05-0240-PCO-EI

From: Janice Banka
Sent: Tuesday, March 01, 2005 4:40 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

3 pgs

Date and Time: 3/1/2005 4:39:00 PM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272or4.jar.doc
Order Type: Signed / Hand Deliver

Order Granting Motion for Temporary Protective Order.

Number of pages in order - 3.

Thanks "J"

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5/3

Timolyn Henry PSC-05-0239-PCO-EI

From: Janice Banka
Sent: Tuesday, March 01, 2005 4:39 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

3pgs

Date and Time: 3/1/2005 4:38:00 PM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272or6.jar.doc
Order Type: Signed / Hand Deliver

Order Granting Motion for Temporary Protective Order.

Number of pages in order - 3.

Thanks "J"

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Marguerite Lockard PSC-05-0237-CFO-EI

From: Janice Banka
Sent: Wednesday, March 02, 2005 10:04 AM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 3/2/2005 10:02:00 AM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272or3.jar.doc
Order Type: Signed / Hand Deliver

3pgs

I SENT THIS INFO DOWN A FEW MINUTES AGO WITH THE WRONG ORDER TITTLE.
THIS SHOULD READ: ORDER GRANTING REQUEST FOR CONFIDENTIAL CLASSIFICATION (DOC. # 13600-04).

Thanks "J"

Janice R. Banka
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5/3

Marguerite Lockard PSC-05-0236-PCO-EI

From: Janice Banka
Sent: Wednesday, March 02, 2005 10:02 AM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 3/2/2005 10:01:00 AM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272or5.jar.doc
Order Type: Signed / Hand Deliver

3 pgs

Order Granting Motion for Temporary Protective Order.

Number of pages in order - 3.

Thanks "J"

Janice R. Banka
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jbanka@psc.state.fl.us

5/3

Marguerite Lockard

From: Patti Zellner
Sent: Monday, February 28, 2005 4:21 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

3 pgs

Date and Time: 2/28/2005 4:19:00 PM
Docket Number: 041272-EI
Filename / Path: 041272NoticeCustServHrg

NOTICE OF CUSTOMER SERVICE HEARING
(I understand that this is submitted after the 2:00 p.m. deadline and will not be issued until tomorrow (3/1).

5918.
220 self mailers
1. Officials.

Marguerite Lockard

From: Patti Zellner
Sent: Monday, February 28, 2005 4:22 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

3 pgs

Date and Time: 2/28/2005 4:21:00 PM
Docket Number: 041272-EI
Filename / Path: 041272NoticeHearingPrehearing

NOTICE OF COMMISSION HEARING AND PREHEATING
(I understand that this is submitted after the 2:00 p.m. deadline and will not be issued until tomorrow (3/1).

220 self mailers to P.O. officials

59/8

Matilda Sanders 0212-PCO

2

From: Janice Banka
Sent: Monday, February 21, 2005 3:43 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 2/21/2005 3:42:00 PM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272or2.jar.doc
Order Type: Signed / Hand Deliver

Order Establishing New Controlling Date for Prehearing.

Number of pages in order - 2.

Thanks "J"

Janice R. Banka
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513

CCA Official Filing
2/15/2005 10:33 AM******** *************** ****Matilda Sanders***1**

Matilda Sanders 0173-PCO

3

From: Patti Zellner
Sent: Tuesday, February 15, 2005 10:28 AM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 2/15/2005 10:27:00 AM
Docket Number: 041272-EI
Filename / Path: 041272OrdServHearings.jsb.doc
Order Type: Signed / Hand Deliver

CCS ✓

ORDER REQUIRING NOTICE OF SERVICE HEARINGS

5|3.

PSC-05-0169-CFO-EI

Marguerite Lockard

RECEIVED-FPSC

05 FEB 14 AM 10:45

COMMISSION CLERK

From: Janice Banka
Sent: Monday, February 14, 2005 9:39 AM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 2/14/2005 9:31:00 AM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272or2.jar.doc
Order Type: Signed / Hand Deliver

Order Granting In Part and Denying In Part Request for Confidential Classification (Doc. #12594-04).

Number of pages in order - 5.

Thanks "J"

Janice R. Banka
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5/3

CCA Official Filing
1/24/2005 11:11 AM******** *************** ****Matilda Sanders***1**

Matilda Sanders 0085-FOF

From: Patti Zellner
Sent: Monday, January 24, 2005 11:11 AM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 1/24/2005 11:10:00 AM
Docket Number: 041272-EI
Filename / Path: 041272FinalOrd.JSB.doc

8

ORDER DENYING MOTION TO DISMISS

513

CCA Official Filing
1/20/2005 3:33 PM******** *************** ****Matilda Sanders***1**

Matilda Sanders 0077-PCO

From: Janice Banka
Sent: Thursday, January 20, 2005 3:34 PM 3
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 1/20/2005 3:33:00 PM
Docket Number: 041272-EI
Filename / Path: 2004/041272/041272or.jar.doc
Order Type: Signed / Hand Deliver

Order Granting Motion for Temporary Protective Order.

Number of pages in order - 3.

Thanks "J"

513

CCA Official Filing
1/20/2005 2:28 PM******** *************** ****Matilda Sanders***1**

Matilda Sanders 0075 - PCO

2

From: Patti Zellner
Sent: Thursday, January 20, 2005 2:24 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 1/20/2005 2:24:00 PM
Docket Number: 041272-EI
Filename / Path: 041272GrantExt.jsb.doc
Order Type: Signed / Hand Deliver

ORDER GRANTING MOTION FOR EXTENSION OF TIME TO FILE TESTIMONY

RECEIVED-FPSC
JAN 20 PM 2:30
COMMISSION CLERK

513

CCA Official Filing
1/19/2005 1:01 PM******** *************** ****Matilda Sanders***1**

Matilda Sanders 0068-PCO

3

From: Patti Zellner
Sent: Wednesday, January 19, 2005 12:52 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 1/19/2005 12:51:00 PM
Docket Number: 041272-EI
Filename / Path: 041272OrdGrantInterv.JSB.doc

ORDER GRANTING INTERVENTION

5/3

CCA Official Filing
12/1/2004 12:46 PM******** *************** ****Matilda Sanders***1**

Matilda Sanders 1190 - PCO

From: Patti Zellner
Sent: Wednesday, December 01, 2004 12:46 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 12/1/2004 12:46:00 PM
Docket Number: 041272-EI
Filename / Path: 041272\041272Intervention.jsb.doc

ORDER GRANTING INTERVENTION

Matilda Sanders 1154-PCO

From: PattiZellner
Sent: Friday, November 19, 2004 2:25 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

Date and Time: 11/19/2004 2:23:00 PM
Docket Number: 041272-EI
Filename / Path: 041272AcknowledgeInterv.jsb.doc

ORDER ACKNOWLEDGING INTERVENTION

3/1

CCA Official Filing
11/18/2004 2:59 PM********** 2:59 PM********** Timolyn Henry******1

Timolyn Henry

1157-PCO

RECEIVED-FPSC
04 NOV 18 PM 3:00
COMMISSION
CLERK

From: PattiZellner
Sent: Thursday, November 18, 2004 2:51 PM
To: CCA - Orders / Notices
Subject: Order / Notice Submitted

13

Date and Time: 11/18/2004 2:50:00 PM
Docket Number: 041272-EI
Filename / Path: 041272\041272oep.jsb.doc
Order Type: Signed / Hand Deliver

ORDER ESTABLISHING PROCEDURE

4/1 mailed with PSC-04-1150