State of Florida

Public Service Commission

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COMMISSION CLERK

DATE:	September 1, 2010
TO:	Ann Cole, Commission Clerk, Office of Commission Clerk
FROM:	Dale R. Buys, Regulatory Analyst IV, Division of Economic Regulation DRB
RE:	Docket No. 100134-EI

Please find attached for filing in the above-referenced docket (1) PEF's response to Staff's 1st Data Request, dated June 9, 2010, (2) PEF's response to Staff's 2nd Data Request, dated July 7, 2010, (3) PEF's response to Staff's 3rd Data Request, dated July 19, 2010, and (4) PEF's response to Staff's 4th Data Request, dated August 20, 2010.

Thank you.

DRB

Progress Energy

June 9, 2010

Dale R. Buys
Bureau of Rate Filings, Surveillance, Finance & Tax
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket 100134-EI
Review of PEF's current allowance for funds used during construction

Dear Mr. Buys:

Pursuant to your June 2, 2010 request, please find enclosed PEF's Response to Staff's 1st Data Request in the above-referenced docket.

Thank you for your assistance in this matter and please let me know if you have any questions. I can be reached at (727) 820-5184.

Sincerely,

John T. Burnett

JTB/at
Attachments

PEF'S RESPONSE TO STAFF'S 1ST DATA REQUEST
Docket 100134-EI

1. Staff reviewed Progress Energy Florida, Inc.'s (Progress) revised AFUDC Schedules for the period ending March 31, 2010, enclosed in your letter dated May 20, 2010. On Schedule B, Progress made a specific adjustment to remove $325,300,013 of short-term debt from the capital structure resulting in a zero balance. Please explain the rationale for this adjustment and provide the appropriate supporting schedules used to calculate the adjustment.

Response:

The adjustment is consistent with PEFs long standing practice of adjustments reported in earnings surveillance to assign commercial paper for the funding of unrecovered deferred balances in pass through clauses such as fuel, capacity, environmental and energy conservation. These unrecovered balances accrue interest pursuant to FPSC requirements at a commercial paper rate and thus represents compensation to the company for the cost of borrowing associated with these unrecovered balances. Since this capital cost is recovered in these clauses it is appropriate to remove that cost from the overall cost of capital used to derive the AFUDC rate. PEF in its most recent comments submitted on May 28, 2010 in response to the FPSC staff's May 12, 2010 workshop, "Reconciliation of Rate Base and the Capital Structure" reiterated this position as follows: *"PEF supports the reconciliation of rate base to the capital structure pro rata over all sources of capital. PEF believes that this method recognizes the fact that the funding of investments cannot generally be traced to specific sources of capital. PEF does support specific adjustments to the capital structure when the adjustment is funded with a specific capital source. An example of this type of adjustment is the specific adjustment that PEF normally makes to remove the deferred fuel balance from short –term debt. Since PEF recovers interest from customers at the commercial paper rate on the unrecovered fuel balance in the fuel clause, PEF believes that it is appropriate to make a specific adjustment to short term debt."*

The current trailing 13 month average balance in the net unrecovered deferrals and related balances exceeded the commercial paper balance therefore the entire short term debt was adjusted from the capital structure to compute the proposed AFUDC rate.

DEFERRED ACCOUNTS FOR ALL CLAUSES AND DERIVATIVES

		2009 MAR	2009 APR	2009 MAY	2009 JUNE	2009 JULY	2009 AUGUST	2009 SEPTEMBER	2009 OCTOBER	2009 NOVEMBER	2009 DECEMBER	2010 JANUARY	2010 FEBRUARY	2010 MARCH	TOTAL	13 Mo. Avg.
1823201	Def Exp				3,821,033		20,569,850	-	-	-	-	104,861,820	111,366,563	94,795,237	335,414,502	25,801,116
1823202	Def Exp	108,745,492	96,565,920	84,386,347	72,206,775	60,027,203	47,847,631	35,668,059	23,488,487	11,308,914	(870,658)	-	-	-	539,374,170	41,490,321
1823203	Def Cap	13,253,247	19,453,535	22,776,220	22,682,930	21,137,429	22,482,846	165,121,727	186,882,985	208,981,809	45,610,686	-	-	-	728,383,414	56,029,493
1823204	Def Cap				-			-	-	-	-	38,309,186	33,537,339	28,765,493	100,612,018	7,739,386
1823205	Def Whlse	5,403,364	5,015,573	6,870,470	6,920,095	7,097,498	8,212,387	6,185,129	6,750,974	4,921,292	5,120,765	7,314,409	9,481,922	7,864,865	87,158,742	6,704,519
1823240	GPIF	1,625,950	1,445,289	1,264,628	1,083,967	903,305	722,644	541,983	361,322	180,661		-	-	-	8,129,749	625,365
2543200	GPIF Def	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(486,888)	(442,625)	(1,074,659)	(7,315,671)	(562,744)
2543201	Def Fuel Rev	(46,825,598)	(54,775,023)	(18,145,756)		(624,452)		(11,701,813)	(2,935,888)	(41,575,062)	(21,449,723)	-	-	-	(198,033,314)	(15,233,332)
2543202	Def Fuel Rev							-	-	-	-	(21,132,402)	(19,944,424)	(18,756,446)	(59,833,272)	(4,602,559)
2543203	Def Cap							-	-	-	-	(6,047,052)	(5,299,322)	(3,907,376)	(15,253,750)	(1,173,365)
2543204	Def Cap	(13,999,385)	(12,724,970)	(11,450,555)	(10,176,141)	(8,901,726)	(7,627,311)	(6,352,897)	(5,078,482)	(3,804,067)	(2,529,653)	-	-	-	(82,645,186)	(6,357,322)
2540950	Reg Liab	(5,504,221)	(5,220,896)	(5,544,122)	(12,040,515)	(13,241,024)	(15,067,113)	(13,815,720)	(13,959,968)	(12,625,032)	(8,666,234)	(7,508,334)	(9,574,009)		(122,767,186)	(9,443,630)
		62,167,699	49,228,278	79,626,082	83,966,994	65,867,084	76,609,784	175,115,319	194,978,280	166,857,366	16,684,034	115,310,741	119,125,444	107,687,113	1,313,224,217	101,017,247
2543300	ECCR	(4,370,825)	(4,328,088)	(3,784,122)	(3,626,876)	(4,985,357)	(5,667,077)	(6,038,603)	(5,963,232)	(4,609,898)	(1,958,433)	(3,205,485)	(3,070,288)	(2,121,523)	(53,729,808)	(4,133,062)
1823430	ECRC							-	-			-	-	-	-	-
2543400	ECRC	(1,195,101)	(4,688,323)	(6,463,656)	(8,657,405)	(11,385,411)	(13,822,318)	(18,919,925)	(22,403,726)	(26,980,096)	(24,268,910)	(29,533,649)	(32,230,959)	(33,885,332)	(234,434,811)	(18,033,447)
1740102	Derivatives	535,340,000	499,300,000	380,690,000	293,530,000	333,460,000	272,890,000	181,970,000	164,960,075	203,110,075	138,750,000	168,520,000	196,690,000	269,940,000	3,639,150,150	279,934,627
2420102	Derivatives	(8,420,000)	-	-	(8,630,000)	-	-	-	-	-		-	-	-	(17,050,000)	(1,311,538)
		583,521,773	539,511,866	450,068,304	356,582,713	382,956,315	330,010,389	332,126,791	331,571,396	338,377,448	129,206,691	251,091,607	280,514,198	341,620,258	4,647,159,748	357,473,827

Progress Energy

July 7, 2010

<u>VIA ELECTRONIC MAIL</u>

Mr. Dale R. Buys
Bureau of Rate Filings, Surveillance, Finance & Tax
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
dbuys@psc.state.fl.us

Re: Review of PEF's current allowance for funds used during construction;
Docket No. 100134-EI

Dear Mr. Buys:

Pursuant to your June 25, 2010 request, please find enclosed Progress Energy Florida, Inc.'s ("PEF") Response to Staff's 2nd Data Request in the above referenced docket.

Thank you for your assistance in this matter. I can be reached at (727) 820-5184 should you have any questions.

Sincerely,

John T. Burnett lms

John T. Burnett

JTB/lms
Attachments

PEF's Responses to Staff Data Request #2
Docket No. 100134-EI

<u>A schedule that lists and describes the basis for the specific and pro-rata adjustments made to the revised AFUDC capital structure in Schedule B of PEF's AFUDC filing</u>

The specific adjustment to short term debt is made up of two components. The first component is to convert the variable rate to a daily weighted average which results in a $41,155,120 adjustment. The second component is to apply the 13 month average balance of the net unrecovered deferral balance from the pass through clauses. The 13 month average under recovered balance was $357,473,827 as shown on the deferred accounts for all clauses and derivatives (attached for question 2). This average exceeded the short term debt balance and, therefore, a specific adjustment of $284,144,893 was made to short term debt. This adjustment is consistent with the Company's last rate case. MFR Schedule D-1b, page 2 of 2 only shows the daily weighted average as projected deferred balances are zero. It is assumed in the projection of pass through clauses that revenues equal expenses and therefore deferred balances are zero. Therefore, we believe the Company is in compliance with Rule 25-6.0141(2)(a).

The pro rata adjustment represents the system rate base adjustments for AFUDC-bearing CWIP, gain/loss sale of plant, capital lease, wholesale nuclear decommissioning fund, asset retirement obligations and all pass through clauses to achieve the system adjusted balance. PEF supports the reconciliation of rate base to the capital structure pro rata over all sources of capital. PEF believes that this method recognizes the fact that the funding of investments cannot generally be traced to specific sources of capital.

The adjustment to Common Equity in the amount of $4,824,703 is to remove the net of non-utility property.

The adjustment to Deferred Income Taxes is made up of two components. The first component is to remove the tax effect of nuclear decommissioning trust fund as it earns a return and is excluded from rate base in the amount of $9,672,870. The second component is to remove the Deferred Tax Assets and Liabilities recovered through the Nuclear Cost Recovery Clause with the CR3 Up-rate and Levy which was $72,917,523 on a 13 month average.

<u>A description of all accounts listed in the schedule entitled "Deferred Accounts For All Clauses And Derivatives" that was included in PEF's response to Staff's First Data Request. In the description, please identify which accounts correspond to the respective recovery clauses, i.e., fuel, capacity, ECRC, ECCR, SCRC</u>

Please see the attached updated schedule.

<u>A description of the purpose for the accounts listed as "Derivatives" in the Deferred Accounts For All Clauses And Derivatives schedule</u>

Short term debt is the source of capital used to fund the derivative collateral receivable (pre-paid fuel), therefore, it is included as an adjustment with the deferred accounts. The derivative and the deferred *accounts are unrecovered balances. These balances accrue interest pursuant to FPSC requirements at a commercial paper rate, and represent compensation to the company for the cost of borrowing associated with these unrecovered balances. Since this capital cost is recovered in these clauses it is appropriate to remove that cost from the overall cost of capital used to derive the AFUDC rate.*

DEFERRED ACCOUNTS FOR ALL CLAUSES AND DERIVATIVES

		2009 MAR	2009 APR	2009 MAY	2009 JUNE	2009 JULY	2009 AUGUST	2009 SEPTEMBER	2009 OCTOBER	2009 NOVEMBER	2009 DECEMBER	2010 JANUARY	2010 FEBRUARY	2010 MARCH	TOTAL	13 Mo. Avg.
	FUEL															
1823201	Deferred Fuel Expense - Current Year				3,821,033		20,569,850	-	-	-	-	104,861,820	111,366,563	94,795,237	335,414,502	25,801,116
1823202	Deferred Fuel Expense - Prior Year	108,745,492	96,565,920	84,386,347	72,206,775	60,027,203	47,847,631	35,668,059	23,488,487	11,308,914	(870,658)	-	-	-	539,374,170	41,490,321
1823205	Deferred Fuel Expense - Wholesale	5,403,364	5,015,573	6,870,470	6,920,095	7,097,498	8,212,387	6,185,129	6,750,974	4,921,292	5,120,765	7,314,409	9,481,922	7,864,865	87,158,742	6,704,519
1823240	Deferred GPIF - Regulatory Asset	1,625,950	1,445,289	1,264,628	1,083,967	903,305	722,644	541,983	361,322	180,661		-	-	-	8,129,749	625,365
2540950	Regulatory Liability - Fuel	(5,504,221)	(5,220,896)	(5,544,122)	(12,040,515)	(13,241,024)	(15,067,113)	(13,815,720)	(13,959,968)	(12,625,032)	(8,666,234)	(7,508,334)	(9,574,009)		(122,767,186)	(9,443,630)
2543200	Deferred GPIF - Regulatory Liability	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(531,150)	(486,888)	(442,625)	(1,074,659)	(7,315,671)	(562,744)
2543201	Deferred Fuel Revenue-Current Year	(46,825,598)	(54,775,023)	(18,145,756)		(624,452)		(11,701,813)	(2,935,888)	(41,575,062)	(21,449,723)	-	-	-	(198,033,314)	(15,233,332)
2543202	Deferred Fuel Revenue-Prior Year							-	-	-	-	(21,132,402)	(19,944,424)	(18,756,446)	(59,833,272)	(4,602,559)
	CAPACITY															
1823203	Deferred Capacity Expense - Current Year	13,253,247	19,453,535	22,776,220	22,682,930	21,137,429	22,482,846	165,121,727	186,882,985	208,981,809	45,610,686	-	-	-	728,383,414	56,029,493
1823204	Deferred Capacity Expense - Prior Year				-			-	-	-	-	38,309,186	33,537,339	28,765,493	100,612,018	7,739,386
2543203	Deferred Capacity Revenue - Current Year							-	-	-	-	(6,047,052)	(5,299,322)	(3,907,376)	(15,253,750)	(1,173,365)
2543204	Deferred Capacity Revenue - Prior Year	(13,999,385)	(12,724,970)	(11,450,555)	(10,176,141)	(8,901,726)	(7,627,311)	(6,352,897)	(5,078,482)	(3,804,067)	(2,529,653)	-	-	-	(82,645,186)	(6,357,322)
		62,167,699	49,228,278	79,626,082	83,966,994	65,867,084	76,609,784	175,115,319	194,978,280	166,857,366	16,684,034	115,310,741	119,125,444	107,687,113	1,313,224,217	101,017,247
1740102	Derivative Collateral Receivable	535,340,000	499,300,000	380,690,000	293,530,000	333,460,000	272,890,000	181,970,000	164,960,075	203,110,075	138,750,000	168,520,000	196,690,000	269,940,000	3,639,150,150	279,934,627
2420102	Derivative Collateral Payable	(8,420,000)	-	-	(8,630,000)	-	-	-	-	-		-	-	-	(17,050,000)	(1,311,538)
	ENERGY CONSERVATION															
2543300	Deferred Energy Conservation	(4,370,825)	(4,328,088)	(3,784,122)	(3,626,876)	(4,985,357)	(5,667,077)	(6,038,603)	(5,963,232)	(4,609,898)	(1,958,433)	(3,205,485)	(3,070,288)	(2,121,523)	(53,729,808)	(4,133,062)
								-	-			-	-	-	-	-
	ENVIRONMENTAL COST RECOVERY															
2543400	Deferred Environmental Cost Recovery	(1,195,101)	(4,688,323)	(6,463,656)	(8,657,405)	(11,385,411)	(13,822,318)	(18,919,925)	(22,403,726)	(26,980,096)	(24,268,910)	(29,533,649)	(32,230,959)	(33,885,332)	(234,434,811)	(18,033,447)
		583,521,773	539,511,866	450,068,304	356,582,713	382,956,315	330,010,389	332,126,791	331,571,396	338,377,448	129,206,691	251,091,607	280,514,198	341,620,258	4,647,159,748	357,473,827

Progress Energy

July 19, 2010

<u>VIA HAND DELIVERY & ELECTRONIC MAIL</u>

Mr. Dale R. Buys
Bureau of Rate Filings, Surveillance, Finance & Tax
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
dbuys@psc.state.fl.us

Re: Review of PEF's current allowance for funds used during construction;
Docket No. 100134-EI

Dear Mr. Buys:

Pursuant to your June 25, 2010 request, please find enclosed Progress Energy Florida, Inc.'s ("PEF") Response to Staff's 3rd Data Request in the above referenced docket.

Thank you for your assistance in this matter. I can be reached at (727) 820-5184 should you have any questions.

Sincerely,

John T. Burnett LMS

John T. Burnett

JTB/lms
Attachments

PEF's Responses to Staff Data Request #3
Docket No. 100134-EI

Request: **Please submit revised AFUDC Schedules that reflect the aforementioned adjustment by July 16, 2010.**

Response: We respectfully disagree with staff's proposed treatment removing the pass through clauses in our AFUDC calculation as an adjustment over all source of capital for the following reasons:

- PEF's last base rate proceeding treatment of pass through clauses in determining the cost of capital was clearly outlined in witness testimony and effectively assumes that these deferred balances are zero.
- AFUDC rates should follow more closely practices used in reporting earnings surveillance as these rates are subject to more frequent and periodic updates. PEF proposed treatment of these pass through balances reflects current financial results and how these financing costs are recovered in rates.
- Our proposed approach is consistent with FERC methods and practice in setting AFUDC rates.

Our policy related to removing pass through clause-related items, including Fuel and Derivative Instrument Assets and Liabilities was discussed in Peter Toomey's testimony on page 29 in PEF's last base rate case. "Q. Please describe the capital structure adjustment regarding the source of funds supporting PEF's unrecovered fuel cost balance." "*A. PEF accounts for these costs through a direct assignment of commercial paper as the source of capital for these costs, rather than through a pro rata assignment of all sources of capital. This adjustment is prudent because commercial paper is uniquely used to finance unrecovered fuel costs.*" The commission, nor interveners, in our base rate proceeding took exception to witness Toomey's testimony on this matter. The fact that it was not a specific adjustment to our capital structure in our filed MFRs as you point out was an administrative oversight, in part due to the assumption that in a projected test year the deferral balances are immaterial if not zero and that the collateral on our derivative positions was a relatively new requirement (see attached summary of related balances). Irrespective of that our policy was clearly articulated in witness Toomey's filed testimony.

We submit that AFUDC rates should follow more closely practices used in reporting earnings surveillance (ESR) as these rates are subject to more frequent and periodic updates. As short term debt balances are materially impacted by the regulatory lag of recoveries in pass through clauses, and that cost of capital is recovered in the clauses by the application of a commercial paper rate to any over or under recovery, it is PEF's position that this cost should be excluded from the determination of an AFUDC rate by our proposed adjustment to the short term balance. This treatment is consistent with how these financing costs are currently being recovered in rates per PEF's surveillance report. Regardless of staff's position on setting AFUDC rates in this docket we believe it would be appropriate to continue to follow our historical practice and policy in this regard in our ESR.

We also think our proposed approach is consistent with FERC methodologies to set AFUDC. Per the CFR, Electric Plant Instructions, Item 17, paragraph (b): "The short-term debt balance and related cost and the average balance for construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment and fabrication shall be estimated for the current year with appropriate adjustments as actual data becomes available." Based on our interpretation of the CFR, short-term debt balances (STD) used in our AFUDC analysis should be reduced to exclude STD that exists to support the retail jurisdiction deferred balances in clauses, as well as collateral issued related to oil/fuel derivatives – both of which accrue interest at the STD rates. This is consistent with our understanding of FERC interpretation whereby the FERC has approved, upon request from other utilities under their jurisdiction, the exclusion of certain STD components in the AFUDC calculation.

Without waiving the concerns expressed above, we have updated the AFUDC calculations as you requested and provided for informational purposes the attached schedules from 7.44% to 7.23%.

SCHEDULE A

PROGRESS ENERGY FLORIDA, INC.
Capital Structure Used for AFUDC Calculation
As of March 2010

	Jurisdictional Average Balance	Capital Ratio	Cost Rates	AFUDC Weighted Average Cost of Capital
Long Term Debt	$ 2,612,968,657	43.9750%	5.42%	2.38%
Short Term Debt	179,172,987	3.0154%	0.65%	0.02%
Customer Deposits	142,488,961	2.3980%	6.25%	0.15%
Preferred Stock	21,121,984	0.3555%	4.51%	0.02%
Common Equity	2,639,158,425	44.4157%	10.5%	4.66%
Deferred Income Taxes	451,557,705	7.5995%	-	0.00%
Deferred Taxes - FAS 109	(109,698,879)	-1.8462%	-	0.00%
Tax Credits - Weighted Cost	5,177,638	0.0871%	-	0.00%
Total	$ 5,941,947,478	100.00%		7.23%

PROGRESS ENERGY FLORIDA, INC.
Capital Structure Adjustments
As of March 2010

SCHEDULE B

	13 Month Average Unadjusted Balance	+	Specific Adjustments	+	Prorata FPSC Adjustments	=	System Adjusted Balance	x	Jurisdictional Allocation %	=	Adjusted Average Balance
Long Term Debt	$ 4,143,826,092		$ -		$ (1,099,242,772)		$ 3,044,583,321		85.82%		$ 2,612,968,657
Short Term Debt	325,300,013		(41,155,120)		(75,375,803)		208,769,090		85.82%		179,172,987
Customer Deposits	193,934,411		-		(51,445,450)		142,488,961		100.00%		142,488,961
Preferred Stock	33,496,700		-		(8,885,751)		24,610,949		85.82%		21,121,984
Common Equity	4,190,184,336		(4,824,703)		(1,110,260,474)		3,075,099,159		85.82%		2,639,158,425
Deferred Income Taxes	633,520,991		82,590,393		(189,964,599)		526,146,785		85.82%		451,557,705
Deferred Taxes - FAS 109	(173,968,056)		-		46,148,927		(127,819,129)		85.82%		(109,698,879)
Tax Credits - Weighted Cost	8,211,056		-		(2,178,167)		6,032,889		85.82%		5,177,638
Total	$ 9,354,505,543		$ 36,610,570		$ (2,491,204,089)		$ 6,899,912,024		86.12%		$ 5,941,947,478

PROGRESS ENERGY FLORIDA, INC.
Methodology for Compounding AFUDC Rate
As of March 2010

SCHEDULE C

Time Period	AFUDC Expenditures ($)	AFUDC Base ($)	Monthly AFUDC ($)	Cumulative AFUDC ($)
1	1.0	1.000000	0.005836	0.005836
2			0.005871	0.011707
3			0.005905	0.017612
4			0.005939	0.023551
5			0.005974	0.029525
6			0.006009	0.035534
7			0.006044	0.041578
8			0.006079	0.047657
9			0.006114	0.053771
10			0.006151	0.059922
11			0.006186	0.066108
12			0.006222	0.072330

Annual Rate (R) = 0.07233

Monthly Rate = ((1 + R)^(1/12))-1 = 0.005836
Note: Monthly rate is rounded to six decimal places per rule 25-6.0141 F.A.C.

Net 13 Mo Avg Balances for STD Adjsutment in MFR D1 ($,000)
Actual/Projected Balances at the Time of the 2010 Test Year Rate Filing

		2008	2009	2010
174.0102	Derivative Collateral Receivable	54,213	217,600	69,330
182.3201-2	Deferred Fuel - Retail (Fuel)	83,050	53,642	2,110
182.3203-4	Deferred Capacity Cost Recovery	11,674	(64,042)	(1,454)
182.3240	Deferred GPIF (Fuel)	1,971	2,168	2,168
182.3430	Deferred ECRC	16,736	1,565	(1,047)
242.0102	Derivative Collateral Payable		(957)	-
254.0950	Regulatory Liability - Fuel	(7,776)	(4,813)	(4,813)
254.3201	Deferred Fuel Revenue - Retail		1,293	-
254.3203	Deferred Capacity Revenue		(1,203)	-
254.3300	Deferred ECCR	(10,167)	(2,729)	46
254.3400	Deferred ECRC	(1,058)	-	-
	TOTAL	148,643	202,524	66,340
	TOTAL (w/o 174.0102)	94,430	(15,076)	(2,990)

Progress Energy

August 20, 2010

VIA HAND DELIVERY & ELECTRONIC MAIL

Mr. Dale R. Buys
Bureau of Rate Filings, Surveillance, Finance & Tax
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
dbuys@psc.state.fl.us

Re: Review of PEF's current allowance for funds used during construction; Docket No. 100134-EI

Dear Mr. Buys:

Pursuant to your August 11, 2010 request, please find enclosed Progress Energy Florida, Inc.'s ("PEF") Response to Staff's 4th Data Request in the above referenced docket.

Thank you for your assistance in this matter. I can be reached at (727) 820-5184 should you have any questions.

Sincerely,

John T. Burnett lms

John T. Burnett

JTB/lms
Attachments

PEF's Responses to Staff Data Request #4
Docket No. 100134-EI

Q1. Is the amount of the balance of the Derivative Collateral Receivable account collected from PEF's customers through the fuel cost recovery clause?

Response: The balance amount of the Derivative Collateral Receivable account represents funds posted by the Progress Energy Florida ("PEF") legal entity with the counterparty. PEF manages and reduces fuel price risk and volatility for its forecasted natural gas and fuel oil burns by executing standard industry fixed price physical and financial swap and option agreements. To manage default risk, some of these agreements contain provisions that require the posting of collateral if contractual thresholds are surpassed. As these fuel hedges are settled with the counterparty when due, amounts prepaid for the hedge (Deriviative Collateral Receivable/Payable) are charged to fuel expense and included for fuel recovery on Schedule A-1, Line 1. Settled hedges are recoverable pursuant to FPSC Order No. PSC-02-1484-FOF-EI issued on October 30, 2002.

To further understand the treatment of collateral related to derivatives in the fuel clause, please refer to the direct testimony of Marcia Olivier in Docket No. 090001-EI filed on August 4, 2009, which states the following:

Q. Please explain your hedging costs of $2,101,786 for interest on collateral related to derivatives?

A. This amount represents incurred costs of PEF's hedging program associated with posting collateral in support of its derivative hedged fuel positions. These costs are recoverable pursuant to FPSC Order No. PSC-02-1484-FOF-EI issued in October 30, 2002, that provides "Each investor-owned electric utility shall be authorized to charge/credit to the fuel and purchased power cost recovery clause its non–speculative, prudently-incurred commodity costs and gains and losses associated with financial and/or physical hedging transactions for natural gas, residual oil, and purchased power contracts tied to the price of natural gas. Examples of such items include transaction costs associated with derivatives (e.g., fees and commissions), gains and losses on futures contracts, premiums on options contracts, and net settlements form swaps transactions." Hedging contracts between PEF and financial institutions require, under certain circumstances, that one of the parties post collateral. During 2009, PEF financed through commercial paper the posting of large amounts of collateral to support derivative contracts with third parties; in turn the third party pays interest to PEF on the collateral funds advanced by PEF. The interest that is received by PEF from the counterparty is mainly based on the federal funds over-night rate, which is lower than the financing cost of the debt incurred by PEF to fund this collateral. The difference between interest received from the counterparty and interest paid by PEF on short-term debt from January through June 2009 of $2,101,786 is a direct incremental cost of PEF's hedging program, and is therefore included as an adjustment to fuel costs. A similar adjustment would be made to reduce fuel costs in the event PEF pays interest on collateral received at a lower interest cost than PEF's financing cost on short-term debt.

Q2. If the answer to question 1 is affirmative, please provide the schedules from the fuel cost recovery clause docket showing how the balances of the derivative collateral accounts are included in the recovery amount.

Response: Please see response to Question 1.

Q3. Please provide a schedule that lists all the derivative instruments and the corresponding balances that comprise the Derivative Collateral Receivable and Payable Accounts (Nos. 1740102 & 2420102).

Response: The amounts posted to account numbers 1740102 & 2420102 are reported on a counterparty basis as agreed in the individual agreements, not a derivative instrument basis. As discussed in question #1 above, collateral is posted or received on a counterparty basis to mitigate liquidity risk associated with hedging instruments. The Enterprise Risk Management department monitors all open positions and reviews the estimated market exposure for each third party company on a daily basis to ensure that PEF only posts the appropriate collateral balances as compared to the contractual thresholds.

Q4. Would PEF classify the Derivative Collateral Receivable account balance as a fuel clause asset or unrecovered fuel? Please explain your answer.

Response: The Derivative Collateral Receivable account balance represents incurred costs of PEF's hedging program associated with posting collateral in support of its derivative hedged fuel positions. These costs would be deemed unrecovered fuel until which time the hedging positions are settled; once settled they are recoverable pursuant to FPSC Order No. PSC-02-1484-FOF-EI issued on October 30, 2002, that provides "Each investor-owned electric utility shall be authorized to charge/credit to the fuel and purchased power cost recovery clause its non-speculative, prudently-incurred commodity costs and gains and losses associated with financial and/or physical hedging transactions for natural gas, residual oil, and purchased power contracts tied to the price of natural gas."

Q5. Please indicate how the derivative collateral accounts are recorded on PEF's balance sheet. Please identify the name used for the derivative collateral accounts on the balance sheet for PEF included in Progress Energy's 10-Q for the quarterly period ending March 31, 2010, filed with the SEC.

Response: Per Progress Energy's 10-Q filing for the period ending March 31, 2010, page 14 of the filing includes the derivative collateral accounts in PEF's Unaudited Condensed Balance Sheets. The Derivative Collateral Receivable is located under the section "Current assets" and titled "Derivative collateral posted" for $270 million as of March 31, 2010. The Derivative Collateral Payable is located under the section "Current liabilities" and titled "Other current liabilities" for $6 million as of March 31, 2010. The Derivative Collateral Payable is included in "Other current liabilities" since the dollar amount is immaterial as compared to the total capitalization and liabilities.

Q6. **In PEF's response to Staff's Third Data Request, PEF indicated that based on its interpretation of FERC methodologies to set AFUDC, it believes that short-term debt balances used in its AFUDC analysis should be reduced to exclude short-term debt that exists to support collateral issued related to oil/fuel derivatives. Please identify any recent dockets or rate cases where the Florida Public Service Commission approved or made a specific adjustment to short-term debt to exclude short-term debt used to support collateral issued related to oil or fuel derivatives.**

Response: While PEF is not aware of specific language in a FPSC order related to this issue, short term debt is the source of capital used to fund the derivative collateral receivable; therefore, the balance of derivative collateral receivable is included as a specific adjustment to short term debt along with the deferred accounts. Since capital costs associated with both derivative collateral receivable and deferred balances are recovered in the clauses at the short term debt borrowing rate, it is appropriate to specifically adjust short term debt to derive the AFUDC rate.

Q7. **Please submit revised AFUDC Schedules that reflect specific adjustments to short-term debt to remove $41,155,120 to convert the variable rate to a daily weighted average balance, and to remove any amounts that are specifically identified and recovered through the fuel cost recovery clause. All other adjustments should be made pro-rata over all sources of capital.**

Response: Please see Attachment A.

Attachment A

(3 pages)

PROGRESS ENERGY FLORIDA, INC.
Capital Structure Used for AFUDC Calculation
As of March 2010

SCHEDULE A

	Jurisdictional Average Balance	Capital Ratio	Cost Rates	AFUDC Weighted Average Cost of Capital
Long Term Debt	$ 2,697,015,558	45.3894%	5.42%	2.46%
Short Term Debt	(0)	0.0000%	0.65%	0.00%
Customer Deposits	140,883,821	2.3710%	6.25%	0.15%
Preferred Stock	21,801,378	0.3669%	4.51%	0.02%
Common Equity	2,724,047,727	45.8444%	10.5%	4.81%
Deferred Income Taxes	466,082,191	7.8439%	-	0.00%
Deferred Taxes - FAS 109	(113,227,376)	-1.9056%	-	0.00%
Tax Credits - Weighted Cost	5,344,178	0.0899%	-	0.00%
Total	$ 5,941,947,478	100.00%		7.44%

PROGRESS ENERGY FLORIDA, INC.
Capital Structure Adjustments
As of March 2010

SCHEDULE B

	13 Month Average Unadjusted Balance	+	Specific Adjustments	+	Prorata FPSC Adjustments	=	System Adjusted Balance	x	Jurisdictional Allocation %	=	Adjusted Average Balance
Long Term Debt	$ 4,143,826,092		$ -		$ (1,133,540,038)		$ 3,010,286,054		89.59%		$ 2,697,015,558
Short Term Debt	325,300,013		(325,300,013)		-		(0)		89.59%		(0)
Customer Deposits	193,934,411		-		(53,050,590)		140,883,821		100.00%		140,883,821
Preferred Stock	33,496,700		-		(9,162,993)		24,333,707		89.59%		21,801,378
Common Equity	4,190,184,336		(4,824,703)		(1,144,901,502)		3,040,458,131		89.59%		2,724,047,727
Deferred Income Taxes	633,520,991		82,590,393		(195,891,649)		520,219,735		89.59%		466,082,191
Deferred Taxes - FAS 109	(173,968,056)		-		47,588,811		(126,379,245)		89.59%		(113,227,376)
Tax Credits - Weighted Cost	8,211,056		-		(2,246,127)		5,964,929		89.59%		5,344,178
Total	$ 9,354,505,543		$ (247,534,323)		$ (2,491,204,089)		$ 6,615,767,131		89.81%		$ 5,941,947,478

PROGRESS ENERGY FLORIDA, INC.
Methodology for Compounding AFUDC Rate
As of March 2010

SCHEDULE C

Time Period	AFUDC Expenditures ($)	AFUDC Base ($)	Monthly AFUDC ($)	Cumulative AFUDC ($)
1	1.0	1.000000	0.005997	0.005997
2			0.006034	0.012031
3			0.006069	0.018100
4			0.006106	0.024206
5			0.006143	0.030349
6			0.006179	0.036528
7			0.006216	0.042744
8			0.006254	0.048998
9			0.006291	0.055289
10			0.006329	0.061618
11			0.006367	0.067985
12			0.006405	0.074390

Annual Rate (R) = 0.07439

Monthly Rate = ((1 + R)^(1/12))-1 = 0.005997
Note: Monthly rate is rounded to six decimal places per rule 25-6.0141 F.A.C.