In April of 2005, Progress Energy Florida, Inc. (PEF or the company) filed a petition with the Florida Public Service Commission (PSC or Commission) for approval of a permanent increase in rates and charges sufficient to generate additional total annual base revenues of approximately $205,556,000 on an annual basis beginning January 1, 2006. In addition, PEF requested approval of certain changes to the terms of existing rate schedules, the withdrawal of certain non-cost-effective interruptible and curtailable rate schedules closed to new customers since 1996, the approval of changes in existing service charges and other related adjustments.

The Commission last granted PEF a rate increase by Order No. PSC-93-0303-AS-EI, issued February 25, 1993. PEF also reduced its base rates under the Stipulation and Settlement approved by the Commission in Order No. PSC-02-0655-AS-EI, issued May 14, 2002.

In its petition, PEF requests new rates and charges based upon its projected “test year” operations ending December 31, 2006. According to the petition, the requested test year will more accurately depict the conditions that PEF will face during the first twelve months new rates will be in effect than would a test year based on a historical period that does not include the new investment associated with the new capital additions, discussed below. A “test year” is a 12-month period used in ratemaking proceedings to compute current levels of investment and income in order to determine the amount of revenue that will be required to allow the utility the opportunity to earn a fair return on its investment. The PSC staff adjusts test year data to properly reflect conditions in the future period for which the rates are being fixed.

PEF states that there are several factors that necessitate its request for an increase in base rates. Specifically, the company has identified the following factors: (1) an increase in number and increase in the demand of customers; (2) capital addition of two new power plants, Hines Units 2 and 3 in 2005; (3) capital expenditures for its nuclear division, steam generator replacements, and additions to transmission and distribution plant; (4) a requested increase in the annual accrual for storm costs; (5) the increase in operation and maintenance costs of the nuclear units because of increased regulatory requirements; (6) approval of PEF’s Depreciation Cost Study, Nuclear Decommissioning Cost Study, and Fossil Plant Dismantlement Cost Study; (7) an increase in operation and maintenance costs due to the addition of the new units and due to the aging of PEF’s nuclear and steam fleet. According to the company, its present rates are insufficient to support the needs of the company and its customers.

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 21 Florida municipalities, utilities, and power agencies.
Lisa Polak Edgar was appointed to the Florida Public Service Commission by Governor Jeb Bush for a four year term beginning January 8, 2002. Commissioner Edgar serves on the National Association of Regulatory Utility Commissioners’ Committees on Consumer Affairs, Water, and International Relations. He is also a member of the Energy Market Access Partnership Board which is a joint project between the Department of Energy and the National Association of Regulatory Utility Commissioners. Prior to his appointment to the Commission, Commissioner Edgar served as the Florida Director of the Federal Program for Senior Executives in State and Local Government, and co-taught a special topics graduate course on the Everglades at the Shepard Broad Law Center, in 1993. Chairman Baez is a member of the National Association of Regulatory Utility Commissioners Committees on Electricity and International Relations, and has served as President of the Southern Association of Regulatory Utility Commissioners. He was named to the State Regulatory Advisory Council to the FCC Federal Advisory Committee on Diversity in the Digital Age. He is a member of Leadership Florida Class XXII, the Florida Bar, and is a past Director of the Hispanic Bar Association, 2nd Judicial District.

Rudolph “Rudy” Bradley was appointed to the Florida Public Service Commission by Governor Jeb Bush for a four year term beginning January 8, 2002. Commissioner Bradley serves on the National Association of Regulatory Utility Commissioners’ Committees on Consumer Affairs, Water, and International Relations. He is also a member of the Energy Market Access Partnership Board which is a joint project between the Department of Energy and the National Association of Regulatory Utility Commissioners. Prior to his appointment to the Commission, Commissioner Bradley served as the Florida Director of the Federal Program for Senior Executives in State and Local Government, and co-taught a special topics graduate course on the Everglades at the Shepard Broad Law Center, in 1993. Chairman Baez is a member of the National Association of Regulatory Utility Commissioners Committees on Electricity and International Relations, and has served as President of the Southern Association of Regulatory Utility Commissioners. He was named to the State Regulatory Advisory Council to the FCC Federal Advisory Committee on Diversity in the Digital Age. He is a member of Leadership Florida Class XXII, the Florida Bar, and is a past Director of the Hispanic Bar Association, 2nd Judicial District.

Lisa Polak Edgar was appointed to the Florida Public Service Commission by Governor Jeb Bush for a four year term beginning January 8, 2002. Commissioner Edgar serves as Deputy Secretary for Planning and Management for the Florida Department of Environmental Protection (DEP) from August 1999 through January 2005. Ms. Edgar’s responsibilities included oversight of the agency’s $2.1 billion budget, fiscal and strategic planning, accountability measures, information technology, administrative services, and coordination between the state and federal government on environmental issues, including oil and gas drilling on the Outer Continental Shelf. Prior to serving at DEP, Commissioner Edgar served as chief analyst on Environmental Policy for the Executive Office of the Governor. He also served as Executive Assistant to Commissioner Gerald L. Gunter, during which time he reviewed and analyzed staff recommendations and advised the Commissioner on those recommendations and other pertinent policy determinations. From 1977 to 1981, he served as a Legislative Analyst with the Office of Public Counsel. He attended the U.S. Military Academy at West Point, and in 1975 received his bachelor of science degree in accounting, summa cum laude, from Florida State University. He also received his master of accounting degree from FSU in 1989.

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While PEF’s proposed residential rate increase will vary based on kilowatt-hour usage, residential customers who use 1,000 kilowatt-hours a month would pay an additional $3.79 beginning in January of 2006, excluding any applicable franchise fees and local taxes. This represents a total increase of approximately 3.9% when compared to PEF’s rates effective August 2005.

A number of consumer representatives have intervened in the rate case, including the Office of Public Counsel (OPC), which represents the citizens in public utility regulatory matters, AARP, the Florida Retail Federation, the Florida Industrial Power Users Group, and White Springs Chemical Company. These parties oppose all or part of Progress’ requested increase. The OPC, for example, advocates a rate reduction of approximately $360 million per year, asserting that Progress has requested an excessive rate of return, has requested an excessive increase in annual accruals to its storm damage reserve, has overstated its projected payroll costs and numerous other cost items, and has accumulated an excessive depreciation reserve of more than $1 billion that should be used to reduce future rates. OPC estimates that its proposed decrease would reduce the bill for a residential customer using 1,000 kilowatt-hours per month by about $6.60 per month.

The PSC has scheduled four customer service hearings to provide customers an opportunity to comment on the quality of service PEF provides and the proposed rate increase. In accordance with Florida Statutes, the PSC will consider the utility’s quality of service and other matters in this case.

The technical hearing is scheduled for September 7-16, 2005 in Tallahassee. In making its final determination, the Commission will consider the evidence and testimony presented by PEF, customers, OPC, and other parties.

PSC staff is scheduled to file a recommendation to establish the final revenue requirements on November 9, 2005. The Commissioners are expected to vote on this matter at the November 21, 2005, Special Agenda Conference. A Commission vote on the final rates is scheduled for November 29, 2005.

Shown below is a monthly electric bill comparison for a residential customer who uses 1,000 kilowatt-hours of electricity. The comparison shows what customers pay effective August 2005, and what they would pay based on the rate increase that PEF has requested. The increase is expected to become effective in January 2006. The bills include the currently effective Fuel, Conservation, Capacity, and Environmental Cost Recovery Charges, and the Commission-approved Storm Cost Recovery Surcharge that will become effective in August 2005. The bills do not include any local taxes or franchise fees that may also apply. Based on this comparison, the bill for a customer using 1,000 kilowatt-hours a month will increase by 3.9%.

<table>
<thead>
<tr>
<th>Bill Component</th>
<th>Effective August 2005</th>
<th>Requested Effective January 2006</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Charge</td>
<td>$8.03</td>
<td>$8.03</td>
<td>-</td>
</tr>
<tr>
<td>Non-Fuel Energy Charge *</td>
<td>$33.15</td>
<td>$37.74</td>
<td>$4.59</td>
</tr>
<tr>
<td>Energy Conservation Cost Recovery</td>
<td>$1.69</td>
<td>$1.69</td>
<td>-</td>
</tr>
<tr>
<td>Environmental Cost Recovery</td>
<td>$1.27</td>
<td>$1.27</td>
<td>-</td>
</tr>
<tr>
<td>Capacity Cost Recovery</td>
<td>$8.75</td>
<td>$8.75</td>
<td>-</td>
</tr>
<tr>
<td>Storm Cost Recovery Surcharge **</td>
<td>$3.27</td>
<td>$3.27</td>
<td>-</td>
</tr>
<tr>
<td>Fuel Cost Recovery ***</td>
<td>$39.18</td>
<td>$38.28</td>
<td>-$0.90</td>
</tr>
<tr>
<td>Gross Receipts Tax</td>
<td>$2.44</td>
<td>$2.54</td>
<td>$0.10</td>
</tr>
<tr>
<td>**Total Monthly Bill</td>
<td>$97.78</td>
<td>$101.57</td>
<td>$3.79</td>
</tr>
</tbody>
</table>

* On the bill, this charge is combined with the Energy Conservation, Environmental, Capacity, and Storm Cost Recovery charges.

** This charge has been approved by the Commission and becomes effective in August 2005.

*** Decrease reflects the company’s proposal to shift recovery of some costs from fuel cost recovery to base rates.
**Consumer Statements at PSC Hearings**

The Commissioners are interested in what consumers have to say about the petition for a rate increase by Progress Energy Florida, Inc. The main purpose of these hearings is to receive comments from the public.

Anyone may make a statement, and speaking is an effective way to let the Commissioners know how you feel about the case under review. At the beginning of the hearings, procedures will be set up to establish an order for comments. PSC staff will have sign-up sheets that will be used to call consumers to speak. PSC staff will also be available to coordinate consumer comments and assist members of the public.

Any person who wishes to comment or provide information to the PSC staff regarding this matter may do so at the hearings, orally or in writing. Written comments also may be mailed to: Florida Public Service Commission, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, or faxed to 1-800-511-0809. Correspondence will be placed in the file of this docket (Docket No. 050078-EI). For your convenience, a comment form is attached to this Special Report.

Any person who wishes to obtain a copy of the recommendation or the order may do so by writing to: Florida Public Service Commission, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, or by going on-line at www.floridapsc.com.

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**Customer Service Hearings**

**Wednesday, July 20, 2005**
11:00 a.m.
Ocala City Council Chambers
City Hall
151 S.E. Osceola Avenue
Ocala, Florida

**Thursday, July 21, 2005**
9:00 a.m.
Sunshine Center Auditorium
330 5th Street North
St. Petersburg, Florida

6:00 p.m.
Commissioners Assembly Room
Pinellas County Board of Commissioners
315 Court Street, 5th Floor
Clearwater, Florida

**Wednesday, September 7, 2005**
9:30 a.m.
Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

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**Florida Public Service Commission**

2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

The Public Service Commission provides a staff of information specialists who are available to answer questions from Florida consumers.

To reach a consumer representative, please call the Public Service Commission during business hours at **1-800-342-3552**, or send a fax to 1-800-511-0809. See the PSC’s Internet home page at www.floridapsc.com.
Petition for a Rate Increase By

Progress Energy Florida, Inc.

DOCKET NO. 050078-EI

Name

Address

If you want to let the Public Service Commission know how you feel about this case, you may fill out this comment form and return it by mail, or send a fax to 1-800-511-0809. Correspondence will be placed in the file of this docket.

C O N S U M E R     C O M M E N T S