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July 13, 2005

Ms. Blanca S. Bayó, Director  
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and Administrative Services  
Florida Public Service Commission  
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RE: Petition for Rate Increase by Progress Energy Florida, Inc.  
Docket No. 050078-EI

Dear Ms. Bayó:

Enclosed are an original and twenty-five (25) copies of the Direct Testimony of Jacob Pous on behalf of the Office of Public Counsel AND Florida Industrial Power Users Group for filing in the above-referenced docket.

Also enclosed is a 3.5 inch diskette containing the Direct Testimony of Jacob Pous in Microsoft Word format. 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.

Sincerely,

Joseph A. McGlothlin  
Associate Public Counsel

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Jacob Pous has been furnished by electronic mail and U.S. Mail on this 13<sup>th</sup> day of July, 2005, to the following:

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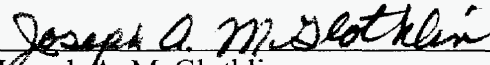
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Joseph A. McGlothlin  
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Petition for Rate Increase by  
Progress Energy Florida, Inc.

Docket No. 050078-EI

\_\_\_\_\_ /

DIRECT TESTIMONY OF

JACOB POUS

ON BEHALF OF

FLORIDA'S OFFICE OF PUBLIC COUNSEL  
&  
FLORIDA INDUSTRIAL POWER USERS GROUP

July 13, 2005

DOCUMENT NUMBER-DATE

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FPSC COMMUNICATIONS SECTION

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1    SECTION I: QUALIFICATIONS AND INTRODUCTION

2  
3    Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4    A.    My name is Jacob Pous and my business address is 12113 Roxie Drive, Suite 110,  
5           Austin, Texas 78729.

6  
7    Q.    WHAT IS YOUR OCCUPATION?

8    A.    I am a principal in the firm of Diversified Utility Consultants, Inc. ("DUCI"). A  
9           copy of my qualifications appears as Exhibit \_ (JP-Appendix A)).

10  
11   Q.    PLEASE DESCRIBE DIVERSIFIED UTILITY CONSULTANTS, INC.

12   A.    DUCI is a consulting firm located in Austin, Texas with an international client  
13           base. The personnel of DUCI provide engineering, accounting, economic, and  
14           financial services to its clients. DUCI provides utility consulting services to  
15           municipal governments with utility systems, to end-users of utility services, and  
16           to regulatory bodies such as state public service commissions. DUCI provides  
17           complete rate case analyses, expert testimony, negotiation services, and litigation  
18           support to clients in electric, gas, telephone, water, sewer, and cable utility  
19           matters.

20   Q.    HAVE YOU PREVIOUSLY TESTIFIED IN PUBLIC UTILITY  
21           PROCEEDINGS?

22   A.    Yes. Appendix A also includes a list of proceedings in which I have previously  
23           presented testimony. In addition, I have been involved in numerous utility rate

1 proceedings that resulted in settlements before testimony was filed. In total, I  
2 have participated in well over 300 utility rate proceedings in the United States and  
3 Canada. I have testified on behalf of the staff of five different state regulatory  
4 commissions.

5  
6 Q. WHAT IS YOUR EDUCATIONAL BACKROUNG?

7 A. As noted in Exhibit \_ (JP-Appendix A), I have a B.S. in Engineering and a M. S.  
8 in Management.

9  
10 Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?

11 A. I am a registered professional engineer. I am registered to practice as a  
12 Professional Engineer in the State of Texas, as well as numerous other states.

13  
14 Q. ON WHOSE BEHALF ARE YOU PROVIDING THIS TESTIMONY?

15 A. DUCI has been retained by the Florida's Office of Public Counsel ("OPC") and  
16 the Florida Industrial Power Users Group ("FIPUG") to address Progress Energy  
17 Florida's ("PEF" or the "Company") depreciation aspect of the revenue  
18 requirements request pending before the Florida Public Service Commission (the  
19 "Commission" or "FPSC") in this docket.

20 SECTION II. OVERVIEW

21  
22 Q. WHAT INFORMATION DID YOU REVIEW IN THE COURSE OF  
23 PREPARING YOUR TESTIMONY?

1 A. I reviewed the Company's filing, the transcript of the deposition of Mr. Earl  
2 Robinson, the consultant who developed the Company's depreciation study but  
3 who did not provide direct testimony, responses to interrogatories and requests to  
4 produce documents, and certain documents in the public record, including past  
5 orders and decisions of the Commission relating to the treatment of depreciation  
6 reserve imbalances, as well as A Survey of Depreciation Statistics presented by  
7 the American Gas Association Accounting Committee and the Edison Electric  
8 Property Accounting & Valuation Committee. As of the filing of this testimony,  
9 the Company has still not provided the industry survey data in its possession that  
10 OPC requested in discovery. When the information is provided, I may have to  
11 supplement my testimony to address the information.

12  
13 Q. WHAT STANDARDS DO YOU APPLY TO YOUR REVIEW OF THE  
14 COMPANY'S DEPRECIATION REQUEST?

15 A. The standard is the establishment of depreciation parameters that most  
16 appropriately result in the Company's recovery of invested capital over the useful  
17 life of the investment from those customers who receive the benefits of the  
18 investment. While there are different aspects reflected within this overall  
19 standard, significant components are the matching principle and the related  
20 principle of maintaining intergenerational equity or eliminating intergenerational  
21 inequities.

22  
23 Q. PLEASE PROVIDE A BRIEF OVERVIEW OF YOUR TESTIMONY.

1 A. My testimony addresses two interrelated areas of the overall depreciation process.  
2 The first area is the treatment (rather, the lack thereof) of the excess imbalance in  
3 the Company's accumulated provision for depreciation ("reserve"), while the  
4 second area is the adjustments necessary to correct inappropriate and  
5 unsupportable net salvage proposals for 11 transmission and distribution plant  
6 accounts within PEF's depreciation study. It should be noted that to the extent  
7 that I do not address a method, procedure, technique, proposal, etc. reflected in  
8 the Company's request should not be taken as my agreement with such method,  
9 procedure, technique, proposal, etc. A brief summary of each area follows.

- 10 • Excess Reserve - The Company has identified over a half billion  
11 dollars of excess reserves in its filing. Any of the Company's main  
12 depreciation parameters (life or salvage) that are further adjusted in  
13 this case will directly affect the magnitude of excess reserve  
14 imbalance. As I will develop in my testimony, because of the use  
15 of inappropriate net salvage factors in its depreciation study, the  
16 Company has understated the magnitude of the reserve excess.  
17 Once the needed corrections are made, the reserve excess is far  
18 greater—approximately \$1.2 billion. Given the significant  
19 magnitude of the excess reserve imbalance (more than a billion  
20 dollars, equal to more than 30% of the Company's book reserve)  
21 that I have calculated, the Commission's history of amortizing  
22 imbalances in the depreciation reserve over periods shorter than  
23 the remaining life, and taking into account the need to accomplish

1 equity to customers on terms that are feasible from the perspective  
2 of PEF's financial posture, I recommend that the Commission  
3 bifurcate the reserve excess for ratemaking purposes. Specifically,  
4 I recommend that the Commission require PEF to amortize the  
5 increment of reserve excess that I identified by correcting the  
6 inappropriate net salvage factors, plus the surplus balance in the  
7 nuclear decommissioning fund, over four years, while leaving  
8 undisturbed PEF's proposal to flow the \$504 million reserve  
9 excess identified in the Company's study to customers over the  
10 remaining lives of the assets. This bifurcation approach is  
11 intended and designed to take an initial, but meaningful, step to  
12 timely address the severe intergenerational inequity problem that  
13 exists in the form of a reserve excess imbalance that totals more  
14 than a billion dollars. The bifurcation approach is very  
15 conservative, in that it allows for a substantial amount of the  
16 excess reserve imbalance to be amortized over the remaining life  
17 of the investment as proposed by the Company. This very  
18 conservative approach not only provides the Commission and all  
19 parties involved a significant comfort level that during the 4-year  
20 period between depreciation studies there will not be a dramatic  
21 turnaround in the current excess reserve position, but also should  
22 eliminate any concern that the Company might not earn a fair and  
23 reasonable return on its investment due to my adjustments. My

1 recommendation is to amortize a total of \$713,970,605 excess  
2 reserve imbalance as of December 31, 2005 associated with my  
3 recommended net salvage adjustments plus the Company's  
4 \$129,757,072 excess in its nuclear decommission fund over a 4-  
5 year period. This results in a \$210,931,919 annual reduction to  
6 revenue requirements. The second portion of my recommendation  
7 is to treat the \$504,049,932 of excess reserve identified and filed  
8 by the Company over the remaining life of the investment. This  
9 treatment does not modify the depreciation rates proposed by the  
10 Company, even after recognition of the recommended adjustments  
11 to net salvage for the 11 mass property accounts discussed below.

- 12 • Mass Property Net Salvage – The amount of depreciation expense  
13 that depreciation rates are designed to recover is a function of three  
14 factors: the investment in the plant, the net amount of any payment  
15 the Company receives for the plant upon disposing of it at  
16 retirement (gross salvage) and the cost incurred to remove the plant  
17 from service (cost of removal). The difference between gross  
18 salvage and the cost to remove is referred to as net salvage. If the  
19 cost to remove an item of plant is predicted to exceed any salvage  
20 payment received, a “negative net salvage” factor will be  
21 calculated and incorporated into the analysis as an addition to the  
22 plant value that the utility must recover through depreciation rates.  
23 If the Company understates the net salvage component (by either

1           underestimating the gross salvage value or overestimating the cost  
2           of removing the plant), the depreciation rate that results will be too  
3           high and, if left uncorrected, will cause a reserve excess imbalance  
4           to result.

5           The Company has proposed modifications to the existing mass property net  
6           salvage levels for various transmission and distribution plant accounts.  
7           Individually and collectively, the Company's narrative and quantitative  
8           presentations do not justify the very large negative salvage calculation that leads it  
9           to understate its reserve excess. The Company's proposals are often inadequately  
10          supported, or are based on trend analyses that in many instances result in  
11          theoretically impossible results. The Company's narrative portions of its  
12          presentation essentially state that the basis for its proposals is "experience",  
13          "expectations", or "anticipations". As will be shown later in my testimony, these  
14          statements are basically meaningless generalizations that are either unsupported  
15          or are inaccurate. The quantitative presentation of the Company in many  
16          instances is so flawed that even the Company's outside depreciation consultant  
17          had to "discount" or ignore his results. Even the Company's historical database is  
18          somewhat questionable, since it contains negative values where only positive  
19          values normally would be expected. These latter unfortunate situations cannot be  
20          corrected, given the Company's policy not to retain the underlying supporting  
21          documentation past a 5-year period.



1 Based on my review of the information and presentation by the Company, I  
2 recommend changes to the net salvage proposed by the Company for 11  
3 transmission and distribution accounts. I further recommend that the entire  
4 impact of these adjustments be credited back to customers over the 4-year period  
5 identified in the above summary addressing the excess reserve adjustment.  
6 Alternatively, if these adjustments were to be spread over the remaining life of  
7 each investment, it would result in a \$34,541,975 adjustment to requested  
8 depreciation expense as set forth on Exhibit \_ (JP-1).

9  
10 Q. BEFORE PROCEEDING TO THE SPECIFICS OF YOUR TWO  
11 RECOMMENDED AREAS OF ADJUSTMENTS, DO YOU WISH TO  
12 COMMENT ON ANY ASPECTS OF THIS PROCEEDING THAT YOU  
13 REGARD AS UNUSUAL?

14 A. Yes. The Company's presentation of its depreciation request, which reflects over  
15 \$300 million of annual depreciation expense, is outside the norm that I have  
16 experienced in my 30 years of depreciation analysis. The Company's  
17 presentation of its depreciation request is provided in a depreciation study  
18 developed by Mr. Earl Robinson of Weber Frick & Wilson Division of AUS  
19 Consultants – Utility Services, for plant as of the end of December 2003. The  
20 data was then updated for projected plant through the end of 2005. While this pro  
21 forma update is itself somewhat unusual, the more unusual aspect of this case is  
22 that the individual responsible for the development of the depreciation parameters  
23 and rates is not a witness. The depreciation study is being sponsored by Company

1 witnesses Mr. Bazemore and Mr. Portuondo who, according to Mr. Robinson,  
2 never met or spoke to Mr. Robinson prior to sponsoring his study and had  
3 “absolutely” no input to the preparation of that study. (See Exhibit \_ (JP-2), Mr.  
4 Robinson’s deposition at pages 24 and 25). This is significant, since Mr.  
5 Robinson admitted during his deposition when questioned regarding someone  
6 else’s ability to replicate the various parameters and proposals that “certainly  
7 another consultant doesn’t have my brain cells.” (Exhibit \_ (JP-2), Mr.  
8 Robinson’s deposition page 91). In my opinion, it is more than questionable how  
9 individuals who are not depreciation experts and who did not participate in the  
10 study could understand and support the specific proposals based on the woefully  
11 inadequate documentation and presentation of the depreciation study. I must  
12 emphasize that I believe the Commission and customers are entitled to a much  
13 greater level of qualitative support and specific presentation than has been  
14 provided by this Company for its depreciation request. Moreover, one should not  
15 confuse the quantity of paper provided that relates to the quantification of the  
16 impact of the parameters; with the quality of information that should clearly set  
17 forth the support and justification for each selected depreciation parameters.

18  
19 SECTION III: DEPRECIATION - GENERAL  
20

21 Q. WHAT IS DEPRECIATION?

1 A. There are several definitions of depreciation. The most appropriate definition is  
2 one from the Federal Energy Regulatory Commission ("FERC"). The FERC  
3 definition for depreciation is as follows:

4 'Depreciation', as applied to depreciable electric plant, means the  
5 loss in service value not restored by current maintenance, incurred  
6 in connection with the consumption or prospective retirement of  
7 electric plant in the course of service from causes which are known  
8 to be in current operation and against which the utility is not  
9 protected by insurance. Among the causes to be given  
10 consideration are wear and tear, decay, action of the elements, and  
11 inadequacy, obsolescence, changes in the art, changes in demand  
12 and requirements of public authorities.  
13

14 Q. IS THERE ADDITIONAL CONSIDERATION IN DEPRECIATION BEYOND  
15 THE DEFINITIONS?

16 A. Yes. The definitions provide only a general outline of the overall utility  
17 depreciation concept. In order to arrive at a depreciation related revenue  
18 requirement in a rate proceeding, a depreciation system must be established.  
19

20 Q. WHAT IS A DEPRECIATION SYSTEM?

21 A. A depreciation system constitutes the method, procedure, and technique employed  
22 in the development of depreciation rates.  
23

24 Q. BRIEFLY DESCRIBE WHAT IS MEANT BY METHOD.

25 A. Method identifies whether a straight-line, liberalized, compound interest, or other  
26 type of calculation is being performed. The straight-line method is normally  
27 employed for utility depreciation proceedings.

1 Q. BRIEFLY DESCRIBE WHAT IS MEANT BY PROCEDURE.

2 A. Procedure identifies a calculation approach or grouping. For example, procedures  
3 can reflect the grouping of only a single item, items by vintage (year of addition),  
4 items by broad group ("ALG") or total grouping, and equal life groupings. The  
5 ALG procedure is used by the vast majority of both electric and gas utilities. The  
6 Company's existing rates rely on the ALG procedure.

7  
8 Q. PLEASE BRIEFLY DESCRIBE WHAT IS MEANT BY TECHNIQUES.

9 A. There are two main categories of techniques with various sub groupings. The two  
10 main categories are the whole life technique and the remaining life technique.  
11 The whole life technique simply reflects calculation of a depreciation rate based  
12 on the whole life (e.g., a ten year life would result in a ten percent depreciation  
13 rate over the life of a plant, or 1 divided by the life) with the amortization of any  
14 reserve imbalance over the remaining life or some shorter period of time.  
15 Alternatively, the remaining life technique recognizes that depreciation is a  
16 forecast or estimation process that is never precisely accurate and requires true-  
17 ups in order to recover only 100% of what a utility is entitled to recover over the  
18 entire life of the investment. Therefore, as time passes, the remaining life  
19 technique attempts to periodically identify needed adjustments to the estimates  
20 and recover the remaining unrecovered balance over the remaining life or other  
21 period of time. Many utilities rely on a remaining life technique in utility rate  
22 matters. However, where the identified reserve imbalance is so material that  
23 recovery over the remaining life would mistreat a generation of customers, to

1       avoid inequities while assuring the company recovers the appropriate amount of  
2       expense, the true-up frequently is amortized over periods shorter than the  
3       remaining life.

4

5       Q.     DO THE METHODS, PROCEDURES AND TECHNIQUES INTERACT WITH  
6       ONE ANOTHER?

7       A.     Yes. Different depreciation rates will result depending on what combination of  
8       method, procedure, and technique is employed. The difference will occur even  
9       when beginning with the same average service life and net salvage values.

10

11      Q.     WHAT IS NET SALVAGE?

12      A.     In order to understand the concept of net salvage, it is beneficial to define net  
13      salvage and its various components. Net salvage, as defined by the FERC, and in  
14      National Association of Regulatory Utility Commissioner's ("NARUC") Uniform  
15      System of Accounts ("USOA") is as follows:

16               Net salvage value means the salvage value of property retired less  
17               the cost of removal.

18

19      The definitions of salvage and cost of removal as set forth in Title 18 CFR Part  
20      101 and in NARUC USOA are as follows:

21               Salvage value means the amount received for property retired, less  
22               any expenses incurred in connection with the sale or in preparing  
23               the property for sale; or, if retained, the amount at which the  
24               material recoverable is chargeable to Materials and Supplies, or  
25               other appropriate amount.

26

1 Cost of removal means the cost of demolishing, dismantling, tearing down or  
2 otherwise removing electric plant including the cost of transportation and handling  
3 incidental thereto.

4  
5 Net salvage is simply the value received for the sale, reuse, or reimbursement of  
6 retired property (gross salvage) less the cost of retiring such property (cost of  
7 removal), whether the retirement reflects demolition of the item of plant or only the  
8 accounting transaction for retiring an item of property in place, abandonment.

9  
10 Due to the manner in which net salvage is calculated (gross salvage minus cost of  
11 removal), it can be positive or negative. If gross salvage exceeds cost of removal,  
12 the net salvage is positive. On the other hand, if the cost of removal is greater than  
13 the gross salvage received in the process of retirement of an item of property, then  
14 the resulting net salvage value is negative.

15  
16 Q. HOW DOES NET SALVAGE IMPACT THE CALCULATION OF  
17 DEPRECIATION?

18 A. The intent of the depreciation process is to allow the Company to recover 100%  
19 of investment less net salvage. Therefore, if net salvage is a positive 10%, then  
20 the utility should only recover 90% of its investment through annual depreciation  
21 charges, under the theory that it will recover the remaining 10% through net  
22 salvage at the time the asset retires (e.g.,  $90\% + 10\% = 100\%$ ). Alternatively, if net  
23 salvage is a negative 10%, then the utility should be allowed to recover 110% of

1 its investment through annual depreciation charges so that the negative 10% net  
2 salvage that is expected to occur at the end of the property's life will still leave the  
3 utility whole (i.e.,  $110\% - 10\% = 100\%$ ).  
4

5 Q. PLEASE SUMMARIZE THE GENERAL CONCEPT OF DEPRECIATION  
6 FOR UTILITIES.

7 A. The concept of depreciation utilized for utility ratemaking has evolved over time.  
8 Currently, there are still many different combinations of methods, procedures, and  
9 techniques employed in the development of utility depreciation rates. The issue  
10 regarding the correct depreciation system along with the correct net salvage to be  
11 employed for utility ratemaking must, among other things, take into account  
12 whether the results are in compliance with the requirement of being systematic  
13 and rational. In arriving at such conclusion, the regulator must further take into  
14 account the quality, quantity, and currentness of data relied upon, as well as the  
15 judgment employed by the depreciation analyst. Judgment plays an important  
16 role in the establishment of depreciation rates given the subjectivity involved in  
17 the various estimation processes. While judgment is critical, that does not mean  
18 that an analyst can simply refer to "judgment" as the basis for a proposal without  
19 providing meaningful factual support for that "judgment;" nor can "judgment"  
20 serve as the basis for ignoring relevant facts. As will be discussed later, Mr.  
21 Robinson practices the art of IPSE DIXIT, but fails to provide a logical rationale  
22 for his judgment.  
23

1 SECTION IV. RESERVE IMBALANCE AND CORRECTIVE ACTION

2

3 Q. FROM A HIGH LEVEL PERSPECTIVE, WHAT IS DEPRECIATION?

4 A. Depreciation is the recovery of invested capital over the life of the investment and  
5 from those customers that received the benefit of the investment.

6

7 Q. IS THE RECOVERY OF CAPITAL THROUGH DEPRECIATION A PRECISE  
8 PROCESS?

9 A. No. The depreciation process for utility ratemaking relies on forecasting the  
10 future life and net salvage of the investment. As with any forecasting process,  
11 there are inherent inaccuracies that will exist. In recognition of the inherent  
12 inaccuracies, depreciation studies should be performed on a regular basis and  
13 should incorporate a true-up provision to address recognized excesses or  
14 deficiencies that are quantified.

15

16 Q. HOW ARE RESERVE EXCESSES OR DEFICIENCIES IDENTIFIED?

17 A. The normal process is to calculate what is called a theoretical reserve and  
18 compare that to the actual book reserve of the utility. The theoretical reserve is  
19 the calculated balance that would be in the accumulated provision for depreciation  
20 (FERC Account 108) at a point in time if current depreciation parameters (i.e.,  
21 current life and salvage estimates) had been applied from the outset. The  
22 theoretical reserve measures the amount of depreciation expense a company needs  
23 to have collected in order to be "on schedule" with respect to recovering its



1 investment over the life of the depreciable asset. The book reserve reflects what  
2 actually has been collected. One can compare the book reserve to the theoretical  
3 reserve. If the book reserve is greater than the theoretical reserve, then the  
4 company has collected more than is needed at that point in time. The difference is  
5 a reserve excess. If the theoretical reserve is greater than the book reserve, the  
6 company has under collected to that point, and a reserve deficiency exists.

7

8 Q. WHAT ARE THE GUIDING PRINCIPLES THAT SHOULD BE  
9 CONSIDERED IN DETERMINING THE CAPITAL RECOVERY PATTERN  
10 THROUGH DEPRECIATION OVER TIME?

11 A. In my opinion, the overriding considerations of fairness and equity that govern the  
12 utility ratemaking process mandate adherence to the matching principle. In other  
13 words, the generation of customers that causes an expense or cost to be incurred  
14 should be the generation of customers that pays for such expense or cost through  
15 the rates charged for usage of the final product, in this case electricity. The  
16 matching principle attempts to achieve the goal of eliminating intergenerational  
17 inequities. Intergenerational inequities occur when one set or generation of  
18 customers pays too much or too little for its use of the investment necessary to  
19 provide electricity, and transfers either an undue advantage or undue burden to  
20 some future set of customers.

21

1 Q. HAS THIS COMMISSION HISTORICALLY RECOGNIZED THE  
2 MATCHING PRINCIPLE WHEN IT COMES TO CAPITAL RECOVERY  
3 THROUGH DEPRECIATION?

4 A. Yes. When capital recovery becomes materially imbalanced between generations  
5 of customers, as measured by the difference between the theoretical and book  
6 reserve, there are two normal industry options employed. The two options for  
7 truing-up or correcting the imbalance are (1) to amortize the calculated  
8 differences over a short period of time, or (2) to simply implement new  
9 depreciation rates based on the remaining life technique where the recovery  
10 period is the remaining life. This Commission has established a long and  
11 identifiable policy of correcting material reserve imbalances by (1) reserve  
12 transfers, (2) one time reserve adjustments based on changes to revenue  
13 requirement areas other than depreciation, and (3) amortizing the reserve  
14 differences over periods much shorter than the remaining life of the investment.  
15 In addition to these practices, this Commission recently approved a settlement in  
16 PEF's last rate case, Docket No. 000824-EI. In part, that settlement allowed PEF  
17 to reduce depreciation expense by \$250 million during its term and instructed PEF  
18 as to how it should allocate the corresponding reduction to the reserve among its  
19 various accounts. Rigid adherence to "remaining life" concepts would not have  
20 permitted this flexibility. (See Order No. PSC-02-0655-AS-EI, paragraph 10).

21  
22 Q. HOW HAVE YOU NORMALLY HANDLED RESERVE IMBALANCE  
23 SITUATIONS LIKE THIS?

1 A. I do not recall ever having encountered an identified reserve imbalance of this  
2 magnitude. Normally utilities perform frequent depreciation studies and  
3 implement the results so as not to get too far out of line with current depreciation  
4 expectations. In this case, the Company identified more than half a billion dollars  
5 of excess reserve based on its proposed parameters. Rather than acting on such a  
6 significant level of excess with an immediate and meaningful response, the  
7 Company proposes “business as usual.” That approach would attempt to correct  
8 the situation over the average 19.25-year remaining life of all its investment.  
9 Particularly in view of the fact that, as I will demonstrate later, the magnitude of  
10 the reserve excess is far greater than the amount the Company identified, I do not  
11 believe this is an appropriate reaction to the facts and circumstance presented in  
12 this case. The magnitude of the intergenerational inequity compels an immediate  
13 and sizeable departure from the remaining life approach to mitigate the degree of  
14 unfairness that otherwise would be imposed on current customers. It is also worth  
15 noting that the Company’s proposed “business as usual” approach differs from the  
16 settlement in the last case. In that settlement, all parties agreed to allow PEF to  
17 reduce depreciation expense during the term of the stipulation. Whether or not it  
18 was intended as a remedial step at the time, the measure prevented PEF’s current  
19 reserve excess imbalance from being even more severe.

20  
21 Q. HOW DOES THE EXCESS LEVEL OF RESERVE AFFECT REVENUE  
22 REQUIREMENTS?

1 A. The effect on revenue requirements of the excess reserve imbalance is significant  
2 no matter the approach undertaken to correct this situation. The shorter the period  
3 utilized to return the excess to customers, the greater the revenue requirement  
4 impact. For example, the Company-identified \$504 million excess reserve is  
5 already reflected in the Company's filing and is partially responsible for the  
6 Company's recommended decrease in depreciation expense of \$46 million  
7 annually. (See Exhibit \_ (JP-3), Company's depreciation study at page 2-7,  
8 column n). However, had the Company's calculated excess reserve been credited  
9 back to current customers in a period shorter than the remaining life utilized by  
10 the Company in its calculation, the overall revenue requirement impact would be  
11 a decrease in depreciation expense greater than the \$46 million amount proposed  
12 by PEF. In fact, had the Company utilized a 4-year amortization period, rather  
13 than the remaining life period for the return of excess reserve to customers, it  
14 would have resulted in an additional \$80 million annual revenue requirement  
15 reduction during the 4-year period (\$504 million divided by 4 less \$46 million).  
16 It must be noted that the above example does not take into account the additional  
17 impact that results from the necessary adjustments to net salvage parameters that I  
18 recommend in the net salvage portion of my testimony.

19  
20 Q. CAN YOU PROVIDE EXAMPLES OF THE COMMISSION'S LONG AND  
21 IDENTIFIABLE POLICIES TO WHICH YOU REFER?

22 A. Yes. In the area of implementing corrective reserve transferences, some examples  
23 of this Commission's previous actions are Gulf Power Company in Docket No.

1 880053-EI and Marianna Electric Division by Florida Public Utilities Company in  
2 Docket No. 010669-EI. These examples occurred during the time frame of the  
3 1980s through the early 2000s. (See Order Nos.19901, PSC-01-2270-PAA-EI).  
4 An example of a Commission action to change the depreciation reserve due to  
5 revenue requirements from an area other than depreciation is Tampa Electric  
6 Company in Docket No. 860868-EI. (See Order No. 19438). Finally, examples  
7 of depreciation reserve differences that the Commission required to be amortized  
8 over periods shorter than the average remaining life are General Telephone Co. in  
9 Docket No. 840049-TL, City Gas Company in Docket No. 890203-GU, and  
10 Florida Power & Light Company in Docket No. 970410-EI. (See Order Nos.  
11 14929, 22115, PSC-97-0499-FIF-EI).

12  
13 Q. WHAT HAS THE COMMISSION STATED AS ITS UNDERLYING POLICY  
14 OR BASIS WHEN ADDRESSING THE TREATMENT OF RESERVE  
15 DIFFERENCES OR INTERGENERATIONAL INEQUITIES?

16 A. The Commission has adopted the position that depreciation reserve differences  
17 “should be recovered as fast as possible, unless such recovery prevents the  
18 Company from earning a fair and reasonable return on its investments.”  
19 (Emphasis added) (See Order No. PSC-93-1839-FOF-EI). In another case, the  
20 Commission adopted a one-year write-off for a portion of a utility’s reserve  
21 deficit by stating that “we believe that it [the deficit] should be written off as  
22 quickly as possible.” (Emphasis added) (See Order No. 13918). In yet another  
23 case, the Commission addressed the fairness issue as it relates to intergenerational

1 inequity. In establishing a funded nuclear decommissioning reserve the  
2 Commission stated “[f]airness dictates that those receiving services and imposing  
3 costs be obligated to pay those costs, instead of placing the risk of recovery on  
4 other ratepayers who may not get service from the nuclear units.” It went on to  
5 state, “that a further delay in changing rates to recognize the responsibility of  
6 current ratepayers to pay the full cost of operating the nuclear generators simply  
7 continued an already unfair situation. We determined that it was unfair that  
8 current ratepayers were not paying their full share and could therefore properly  
9 change FP&L’s and FPC’s rates to alleviate unfair, unjust and unreasonable  
10 rates.” (Emphasis added). (See Order No. 13427).

11  
12 Q. IN THE CASES YOU CITED, DID THE AMOUNT OF THE RESERVE  
13 IMBALANCE THAT THE COMMISSION DECIDED TO CORRECT OVER A  
14 PERIOD SHORTER THAN THE REMAINING LIFE APPROACH A BILLION  
15 DOLLARS?

16 A. No.

17  
18 Q. SHOULD THE CORRECTIVE TREATMENT OF A RESERVE IMBALANCE  
19 DIFFER DEPENDING ON WHETHER IT IS MATERIAL EXCESS OR A  
20 MATERIAL DEFICIENCY?

21 A. No. The rationale to be applied to either scenario is identical. In this regard, it is  
22 important to note that under the depreciation process the utility will not be

1 "harmed" by a corrective adjustment. The matter is one of the timing of recovery.

2 On the other hand, imbalances have prejudicial impacts on certain customers.

3

4 Q. WHY DO YOU REFER TO MATERIAL IMBALANCES RATHER THAN  
5 IMBALANCES IN GENERAL?

6 A. Any process that involves estimates will result in actual values that differ from the  
7 predicted values. As previously noted, I do not believe most utilities allow  
8 identified imbalances of this magnitude to be created. Generally speaking, by  
9 revisiting the reserve situation with a comprehensive study every few years, one  
10 would reasonably expect the variance between the theoretical reserve and the  
11 book reserve to stay within reasonable bounds. When reserve imbalances occur,  
12 they are normally treated through the remaining life process. Not every  
13 discrepancy between theoretical and book reserves is so large as to require a  
14 departure from the method of recalculating the accrual that will retire the asset  
15 over its remaining life. However, the greater the disparity in the reserve, the  
16 greater the level of intergenerational inequity that exists. The greater the level of  
17 intergenerational inequity, the more compelling becomes the corresponding  
18 rationale for addressing the imbalance over a shorter period.

19

20 Q. IS THERE ANY REASONABLE QUESTION IN THIS CASE WHETHER A  
21 SIGNIFICANT OR MATERIAL EXCESS IN THE DEPRECIATION  
22 RESERVE EXISTS?

1 A. In my view, there is no room for argument on this question. The Company  
2 identifies a \$504 million excess in its depreciation study and an additional \$130  
3 million excess in its nuclear decommissioning fund. (See Exhibit \_ (JP-4)).  
4 While the Company's depreciation consultant is willing only to characterize the  
5 \$504 million excess identified by his study as "not tiny, and its not huge." (See  
6 transcript of Mr. Earl Robinson at page 62, Exhibit \_ (JP-2)). I submit that this  
7 level of excess must be considered material and significant by any reasonable  
8 measuring index. Moreover, the \$504 million size of the reserve excess reported  
9 in PEF's depreciation study has been artificially understated by the effect of  
10 inappropriate net salvage estimates for PEF's mass property accounts. When  
11 restated to adjust for the distortions created by the inappropriate net salvage  
12 assumptions, the reserve excess is not \$504 million, but \$1.2 billion. The reserve  
13 excess amounts to 30% of PEF's book reserve. The magnitude of the excess is so  
14 huge, and the prejudicial impact of the imbalance on current customers is so great,  
15 that fairness compels a departure from PEF's "remaining life" approach so that  
16 current customers do not continue to subsidize future customers to such a large  
17 extent.

18  
19 Q. ARE YOU STATING THAT THE COMPANY INTENTIONALLY  
20 ACCELERATED THE RECOVERY OF CAPITAL BY EMPLOYING  
21 OVERLY AGGRESSIVE DEPRECIATION PARAMETERS IN THE PAST?

22 A. No, in part because I did not investigate the prior depreciation requests to the  
23 point where I could determine if the depreciation parameters contained therein



1 could be characterized as being too aggressive at those periods in the past. The  
2 fact is that the prior depreciation parameters and actual historical events have  
3 resulted in the material excess imbalance that exists today. While it would be  
4 interesting to know the cause of each component of the material imbalance from  
5 an academic standpoint, the need to correct the imbalance situation now is not  
6 dependent on what caused the material excess reserve position. In fact, while  
7 some might feel the need to know what precisely caused the material imbalance  
8 when determining the corrective option (shorter amortization period or remaining  
9 life) to employ, I submit that the customer who has paid more than his cost of  
10 service in the past cares less about the factors that led to the over collection and  
11 more about the action taken to correct the situation. Moreover, the matching  
12 principle is indifferent as to the cause of the intergenerational inequity. The real  
13 issue, as previously recognized and acted on by this Commission in the context of  
14 reserve deficiencies, is the elimination of the (excess) imbalance "as fast as  
15 possible" as previously stated by the FPSC. Finally, while it is easy to identify  
16 that a sizable component of the excess reserve is due to the longer expected life of  
17 the Company's nuclear unit, this does not account for the majority of the excess  
18 reserve that exists.

19  
20 Q. DOES PEF'S DEPRECIATION CONSULTANT BELIEVE THAT IT IS  
21 IMPORTANT TO KNOW THE REASONS FOR THE IMBALANCE?

22 A. Yes. He stated in his deposition, "you've got to understand part of the reasons  
23 why those variances exist." (See transcript of Mr. Robinson's deposition at page

1           63, Exhibit \_ (JP-2)). He bases his reasoning on his belief that the theoretical  
2           reserve calculation "makes an assumption that the current [depreciation] estimates  
3           have always been in place, and that's not true." (See Exhibit \_ (JP-2), Mr.  
4           Robinson's deposition at page 50). Alluding to the fact that a portion of the  
5           imbalance results from life extensions, he said, "if you're going to get that  
6           additional life, you're going to end up spending a whole bunch more money down  
7           the road to get those extra lives." (See Exhibit \_ (JP-2), Mr. Robinson's  
8           deposition at page 63).

9  
10       Q.   DO YOU AGREE WITH PEF'S DEPRECIATION CONSULTANT ON THIS  
11           POINT?

12       A.   No. First, while the extension of the nuclear unit life has a significant impact on  
13           the imbalance, so does the impact of net salvage. In fact, when the Company's  
14           excessive proposals for transmission and distribution plant net salvage are  
15           corrected, the imbalance becomes noticeably more attributable to net salvage than  
16           to life considerations. Net salvage considerations have nothing to do with  
17           "spending a whole bunch more money down the road." Even if some additional  
18           funds are required to obtain longer lives in the future, those costs, if they in fact  
19           do occur, will be dealt with appropriately in the future – and by the customers  
20           who will benefit from such expenditures. In fact, this is the exact position already  
21           reflected in the current depreciation study and affirmed by Mr. Robinson in his  
22           deposition where he states, "I am not saying that we should include future  
23           additions, which we have not." (See Exhibit \_ (JP-2), Mr. Robinson's deposition

1 age page 67). In other words, Mr. Robinson contradicted his previously stated  
2 belief that one would have to know or understand the reasons for the reserve  
3 imbalance. Moreover, if at some potential future period additional funds are  
4 required to obtain a longer life, then it must also be recognized that the plant that  
5 has lived that long of a period will most likely be heavily depreciated and require  
6 a small level of return compared to current levels. That simply means that while  
7 future customers may have to pay a high depreciation expense for the new  
8 additions necessary to obtain a longer life for the original asset, the older addition  
9 will have a much lower annual depreciation level and a much lower return  
10 component, more than adequate "balance" if some form of balance is required.

11  
12 Q. YOU HAVE USED THE TERM "MATERIAL IMBALANCE" SEVERAL  
13 TIMES. IS THERE A PRECISE POINT AT WHICH THE IMBALANCE  
14 BECOMES MATERIAL?

15 A. No, not really. However, I am aware of one jurisdiction that has quantified a 5%  
16 difference between the theoretical and book reserve as the point at which a  
17 correction process will be implemented. Moreover, Mr. Robinson, the  
18 Company's depreciation consultant, stated in his deposition that "to the extent that  
19 we've increased or we've extended life on production plants, on Crystal River,  
20 that in itself made a significant difference in the theoretical versus the book  
21 [reserve]." (Emphasis added) (See Exhibit \_ (JP-2), Mr. Robinson's deposition  
22 at page 63) The imbalance for nuclear plant identified by the Company is 29%.  
23 (See PEF's 2003 depreciation study at page 2-65, Exhibit \_ (JP-3)). Accordingly,

1 while we don't know the minimum point at which Mr. Robinson would concede a  
2 disparity is "significant", we know he thinks a differential of 29% meets his  
3 criteria.

4  
5 Q. WHAT PERCENTAGE LEVEL OF RESERVE IMBALANCE EXISTS FOR  
6 PEF?

7 A. The Company admits to a 13% excess reserve imbalance as of the end of 2005.  
8 (See Exhibit \_ (JP-4) response to Citizens-204). This 13% level is prior to any  
9 impact associated with the \$130 million excess reserve position in the Company's  
10 nuclear decommissioning fund or the additional \$714 million of excess reserve  
11 based on my recommended net salvage adjustments to transmission and  
12 distribution plant. Recognition of only the additional \$714 million amount would  
13 drive the excess to over 30%, or over \$1.2 billion.

14  
15 Q. HOW HAS THE COMPANY PROPOSED TO TREAT ITS EXCESS  
16 DEPRECIATION RESERVE IMBALANCE?

17 A. The Company proposes to remain silent as it pertains to the significant excess  
18 reserve imbalance. It proposes simply to return the excess to customers over the  
19 remaining life of the investment.

20  
21 Q. WHAT REMAINING LIFE PERIOD IS REFLECTED IN THE COMPANY'S  
22 DEPRECIATION STUDY?

1 A. The Company's depreciation study reflects an overall 19.25-year remaining life  
2 for its entire remaining unrecovered depreciable investment.

3

4 Q. WHAT IS THE BASIS FOR THE COMPANY'S TREATMENT OF THIS  
5 MATTER?

6 A. The Company's depreciation study is silent on this matter. While we do not know  
7 with certainty if the Company made a conscious decision in establishing its  
8 official position, Mr. Robinson through the depreciation study employed the  
9 remaining life technique. In his deposition, Mr. Robinson said, "I have been a  
10 staunch supporter of remaining life depreciation for many years. Could there be a  
11 situation where some remedy would be required to recover investments over  
12 something other than remaining life, certainly that's something you would have to  
13 look at on a case-by-case basis, but I think it would have to be a fairly severe  
14 circumstance." (Emphasis added) (Exhibit \_ (JP-2), Mr. Robinson's deposition  
15 transcript at pages 49-50). It is clear that Mr. Robinson's threshold for employing  
16 something other than the remaining life is rather high and maybe not obtainable.

17

18 Q. DOES THIS POSITION COMPORT WITH COMMISSION PRECEDENT?

19 A. As previously noted, the Commission often has employed the recovery of a  
20 reserve imbalance over periods shorter than the remaining life.

21

22 Q. HAS THE COMPANY'S DEPRECIATION EXPERT PREVIOUSLY  
23 TESTIFIED IN FLORIDA?

1 A. No.

2

3 Q. DOES THIS POSITION TAKEN BY PEF ADEQUATELY ADDRESS THE  
4 INTERGENERATIONAL INEQUITY THAT EXISTS FOR CURRENT  
5 CUSTOMERS?

6 A. No. For example, the 20-year change in the number of residential customers on an  
7 actual and forecasted basis, as set forth on page 2-4 of the Company's Ten-Year  
8 Site Plan dated March 31, 2003 is 42%. (See Exhibit \_ (JP-5)). While this is a  
9 sizeable change in the customer base, it tells only part of the story. The 42%  
10 growth is a net number and does not identify how many customers left or will  
11 leave the system. Thus the change in customers corresponding to the remaining  
12 life period employed by PEF for the return to customers of its prior acceleration  
13 of depreciation expense, at least for the residential class, could easily be over  
14 50%. I submit that the current intergenerational inequity that exists due to the  
15 current excess of the depreciation reserve created by prior accelerated levels of  
16 depreciation (whether intentional or not) cannot reasonably be addressed or  
17 rectified by relying on a 19.25-year remaining life period.

18

19 Q. DOES RELIANCE BY SOME OTHER JURISDICTION ON REMAINING  
20 LIFE TO ADDRESS RESERVE IMBALANCES DIMINISH THE NEED TO  
21 FOLLOW FPSC'S LONG AND IDENTIFIABLE PRECEDENT?

22 A. No. In my opinion it would be unfair to customers to deny them the same  
23 treatment afforded utilities by the FPSC when the situation was reversed.

1 Inconsistent application of concepts in the rate setting process causes uncertainty.  
2 Needless uncertainty in the ratemaking process is not in the public interest and  
3 can result in higher rate case expenses and other higher costs in the future.  
4

5 Q. HAS MR. ROBINSON RAISED CONCERNS REGARDING A POTENTIAL  
6 TURNAROUND OF THE EXCESS RESEVE?

7 A. Yes. Mr. Robinson attempts to place the comparison of the theoretical reserve to  
8 the actual book reserve as something that is akin to painting "a very vague  
9 picture." He basis his position on the belief that the reserve position could change  
10 "because one day, today you could have no deficiency, and tomorrow after you  
11 finish the [depreciation] study, you could have a large deficiency." (See Exhibit \_  
12 (JP-2), Mr. Robinson's deposition at page 64). Mr. Robinson even went so far as  
13 to present a hypothetical example where plant could increase by 50% in the year  
14 after a depreciation study and the new addition would have a short remaining life.  
15 By the time a new study would be performed, the reserve would turn around.  
16 (See Exhibit \_ (JP-2), Mr. Robinson's deposition at page 75). It would take an  
17 extreme situation to cause the excess reserve imbalance to turn around quickly.

18 Q. HOW DO YOU ADDRESS THE COMPANY'S DEPRECIATION  
19 CONSULTANT'S CONCERN THAT DEVIATION FROM THE REMAINING  
20 LIFE AS THE TRUE-UP PERIOD LEAVES EVERYONE SUBJECT TO A  
21 REVERSAL OF THE EXCESS RESERVE POSITION SOMETIME IN THE  
22 FUTURE?



1 A. Recall that, as adjusted to address inappropriate salvage factors, the reserve  
2 excess is more than a billion dollars, and that if my recommendation is adopted  
3 PEF will remain "over funded" by \$504 million. Consider also that PEF will  
4 submit a new depreciation study within four years. Because I have purposely  
5 tempered my recommendation to be conservative, under the circumstances I  
6 believe there is no realistic scenario under which PEF could swing to a reserve  
7 deficiency prior to the next study. Certainly, that remote prospect is more than  
8 outweighed by the prejudice to current customers if the Commission were to take  
9 no action to address the severe imbalance more rapidly than the remaining lives of  
10 the assets. I would say there is no realistic basis or possibility that the excess  
11 reserve would turnaround and become a deficiency by the time the next  
12 depreciation study is completed in four years.

13  
14 Even if a reversal were to occur, I do not believe it could be of a significant level,  
15 for example up to the \$504 million excess currently identified in PEF's  
16 depreciation study. I believe this to be the situation given that the Company is  
17 requesting a little over \$300 million of annual depreciation and the Company's  
18 proposed reduction in depreciation expenses is \$46 million, or about 13%. If one  
19 assumes that the future will be as the Company proposes in this case and  
20 depreciation could be off by 13% per year, then the under-recovery during the  
21 next four years would be approximately \$160 million. This would represent only  
22 about a third of what the current level of the reserve excess that I have  
23 recommended to be left in place. Thus, Mr. Robinson's hypothesizing of a 50%



1 increase in plant immediately after this case ends with a short remaining life that  
2 might result in a conclusion that “your whole reserve comparison scenario  
3 [sizeable excess reserve imbalance] would just totally change” is so far beyond  
4 the realm of reality that it represents nothing more than an attempt to deny the  
5 obvious. (See Exhibit \_ (JP-2), Mr. Robinson’s deposition at page 75).

6

7 Q. WHAT IS YOUR SPECIFIC PROPOSAL REGARDING THE TREATMENT  
8 OF THE RESERVE EXCESS?

9 A. I recommend an approach that should satisfy all concerns if my recommended  
10 adjustments to mass property net salvage are adopted. Under the scenario I  
11 recommend, the \$714 million plus of additional excess reserves associated with  
12 my adjustments to net salvage parameters, plus the nuclear decommissioning  
13 excess reserve of \$130 million, would be returned to customers over the next 4-  
14 years. The \$504 million of excess reserve identified by the Company in its own  
15 study can be returned to customers over the remaining life as it proposed. This  
16 latter aspect provides a safety cushion for those that may believe that one is  
17 necessary, while providing the most representative generation of customers  
18 available the return of a significant portion of their prior overpaid depreciation  
19 expense. This approach addresses the matching principle and its related  
20 intergenerational inequity problem, but not to the degree that this Commission has  
21 previously found appropriate in other cases. This approach also takes into  
22 account the need to gauge the impact of a shorter amortization period so as to  
23 protect the financial integrity of the Company. I have discussed the impact of my

1 recommended adjustment with OPC's financial and accounting witnesses, who  
2 confirmed that PEF could implement my recommendation and maintain coverage  
3 ratios adequate to access the capital markets on reasonable terms and maintain an  
4 appropriate capital structure. Alternatively, if the Commission elects not to adopt  
5 my recommended net salvage adjustments, then fairness and equity demands that  
6 the \$504 million reserve excess identified by PEF plus the \$129 million excess in  
7 the nuclear decommissioning fund be amortized back to customers over a 4-year  
8 period. At that point, a clean slate will have been established and future  
9 customers will be charged based on the then best estimate of depreciation  
10 parameters.

11  
12 Q. WHY DID YOU CHOOSE A 4-YEAR AMORTIZATION PERIOD?

13 A. The 4-year period is not only within the range of periods previously adopted by  
14 this Commission for other cases where a reserve deficiency was present; it also  
15 corrects the intergenerational situation in an effective and manageable manner.  
16 Further, the 4-year period provides sufficient time for the Company to gain  
17 additional experience and perform and present a new, complete and well-  
18 documented depreciation study. Finally, one must always recognize that the  
19 ratemaking process already disadvantages current customers in the  
20 intergenerational inequity scenario. Remember, those generations of customers  
21 nearer to the end of the useful life of an investment pay much less for service than  
22 do customers at the beginning of the useful life. While future customers will not  
23 see a difference in the actual product (i.e., a kwh of energy or a Kw of capacity), a

1 different price will be paid. Payment for electricity near the end of the useful life  
2 of investment is associated with heavily depreciated investment. Recognition of  
3 heavily depreciated investment results in a much smaller return on investment  
4 being required. It is inappropriate to violate the strong and identifiable precedent  
5 employed by this Commission in the past by penalizing current customers for the  
6 benefit of future customers.

7  
8 Q. WHAT IS THE IMPACT ON REVENUE REQUIREMENTS IF YOUR  
9 BIFURCATED APPROACH TO THE \$1.2 BILLION RESERVE ACCESS IS  
10 ADOPTED?

11 A. Allowing the Company to retain the remaining life approach associated with the  
12 \$504 million of excess reserve it reflected in its filing and depreciation request  
13 results in no additional impact on its requested revenue requirements one way or  
14 the other. Amortizing the \$714 million excess reserve associated with my  
15 recommended changes to mass property net salvage plus the \$130 million of the  
16 excess in the nuclear decommissioning fund results in a \$211 million reduction in  
17 depreciation expense, and a corresponding reduction of that amount in the  
18 Company's overall revenue requirements. Note that the amortization would not  
19 completely offset the \$300 million of depreciation expense requested by PEF.

1    SECTION V. NET SALVAGE - GENERAL

2    A. General

3    Q.    WHAT PERIOD ASSOCIATED WITH ITS NET SALVAGE STUDY HAS  
4           THE COMPANY CHOSEN TO ANALYZE?

5    A.    The Company has analyzed a 29-year period, 1975 through 2003.  
6

7    Q.    ON AN OVERALL BASIS, WHAT IS THE COMPANY'S POSITION WITH  
8           RESPECT TO THE NET SALVAGE ASPECT OF ITS DEPRECIATION  
9           STUDY?

10   A.    The Company predicts that it will incur negative net salvage of \$1.4 billion. In  
11        other words, the cost to remove the plant will exceed its salvage value by that  
12        amount. This means that PEF contends it must collect \$1.4 billion, or 16%, more  
13        than its original investment in plant to recoup its capital investment.  
14

15   Q.    HAVE YOU REVIEWED ALL THE INFORMATION PRESENTED BY THE  
16        COMPANY IN SUPPORT OF ITS NET SALVAGE REQUEST?

17   A.    Yes. I reviewed the Company's study and its answers and responses to OPC's  
18        discovery requests. In addition, OPC took the deposition of Mr. Robinson, the  
19        consultant who prepared the depreciation study, during which Mr. Robinson was  
20        asked to describe in detail all of the information he considered and the procedure  
21        he followed in arriving at his positions.  
22

1 Q. WHAT DO YOU CONCLUDE REGARDING THE ADEQUACY OF THE  
2 INFORMATION TO SUPPORT PEF'S POSITION ON NET SALVAGE?

3 A. For the reasons I will develop in detail below, the information provided by the  
4 Company is inadequate to support or demonstrate the appropriateness of its  
5 request for an overall negative \$1.4 billion or negative 16% net salvage for plant  
6 in service forecasted as of December 31, 2005. (These amounts are exclusive of  
7 decommissioning activity related accounts).

8  
9 Q. WHAT PROCESS DID PEF EMPLOY WHEN ESTABLISHING ITS NET  
10 SALVAGE PARAMETERS?

11 A. The only indication within the depreciation study of the process employed is very  
12 limited narratives along with 3 to 4 pages of historical data and limited numerical  
13 analyses for each account in the filed study. This is found in Sections 4 and 8 of  
14 the Company's depreciation study.

15  
16 The historical data is listed both on an annual basis and on a rolling 3-year  
17 average or band basis. The last numerical page for each account sets forth the 29-  
18 year overall average for gross salvage, cost of removal and net salvage. Also set  
19 forth on the last numerical page for each account are two forecasts, one for gross  
20 salvage and the other for cost of removal. The consultant predicted end-of-life  
21 gross salvage by means of a linear trend analysis. He estimated the cost of  
22 removal by applying an inflation factor to current levels. Both of these tools are  
23 suspect.

1

2 Q. WHY ARE THEY SUSPECT?

3 A. To begin, one must have in mind the definition of gross salvage. It is the  
4 payment, if any, the Company will receive for the asset when it retires and  
5 disposes of the asset. By definition, the minimum possible value for gross  
6 salvage is zero. Yet, Mr. Robinson's linear trend regression frequently arrived at  
7 negative gross salvage values—a result that is theoretically impossible, and that  
8 should alert one to flaws in the assumptions or methodology employed.

9

10 With respect to the cost of removal, Mr. Robinson inflated current costs over time  
11 by an assumed annual inflation factor of 2.75%. However, he failed, among other  
12 things, to consider the implications of the mismatch that results when one requires  
13 cost of removal expressed in future dollars to be collected from current customers  
14 in current dollars. His methodology produced removal costs so overstated that he  
15 frequently was forced to ignore or mentally "discount" the results when arriving  
16 at individual recommendations. (See Exhibit \_ (JP-2), Mr. Robinson deposition at  
17 page 128).

18

19 Therefore, it appears that the basis for the final depreciation parameter proposals  
20 lies in the narrative portion of the depreciation study. I must emphasize that I use  
21 the word "appears" given the failure by the Company in the depreciation study,  
22 the testimony, and the responses to interrogatories and requests to produce  
23 documents to identify and present with any degree of specificity how the final

1 proposal was determined. The narrative basically alludes to "Company  
2 expectation," "the Company's overall experience", "anticipated level of increase  
3 of retirement costs", or inconsistent reliance on varying historical data points. In  
4 other words, these statements or bases for the Company's proposal amount to  
5 little more than vague generalities that could yield basically any value the  
6 depreciation analyst desires.

7  
8 Q. TO WHICH ACCOUNTS ARE YOU RECOMMENDING A CHANGE DUE  
9 TO YOUR NET SALVAGE ANALYSES?

10 A. As set forth on Exhibit \_ (JP-6), I am recommending a change to 11 of the  
11 Company's transmission and distribution accounts. These accounts comprise  
12 over 88% of PEF's transmission and distribution plant investment as of December  
13 31, 2005.

14  
15 Q. WHAT ARE THE MAJOR FLAWS IN THE COMPANY'S NET SALVAGE  
16 ANALYSIS FOR TRANSMISSION AND DISTRIBUTION PLANT?

17 A. The Company's transmission and distribution related net salvage analysis is  
18 fatally flawed due to numerous and significant problems. The major problems are  
19 identified below:

- 20 • Linear Trend Analysis for Gross Salvage Projections – One of the  
21 major mathematical exercises performed by the Company for each  
22 account is a linear trend of the historical gross salvage. First, it  
23 must be noted that the regression analysis of gross salvage percent

relationships does not recognize the materiality of the data point in any given year. In other words, a \$100 retirement with a corresponding \$1 gross salvage that results in a 1% level of gross salvage would be given the same weight in the regression analysis as a \$1 million retirement with a \$500,000 gross salvage that results in a 50% gross salvage level. Notwithstanding this problem with the regression analysis, Mr. Robinson should have recognized the fallacy of this model, since it often produced negative values. Negative values are theoretically impossible for gross salvage! Unfortunately, Mr. Robinson utilized a method that produced theoretically impossible negative gross salvage values in forecasting his total "forecasted" net salvage values, and then basically discarded the results when determining his recommendation. Mr. Robinson's reliance on his gross salvage model as a starting point to then discount values simply distorted the entire process.

- Inflation Based Cost of Removal Forecast – Mr. Robinson relies on a forecast model for cost of removal that recognizes only inflation. This model is also fatally flawed since it assumes inflation is the only factor to consider in determining future cost of removal. Given that the historical level of cost of removal is part of the starting point of this calculation, Mr. Robinson should have realized that many factors other than inflation affected the



1 historical level. In fact, if Mr. Robinson's overall model had any  
2 validity it would be easy to plot the historical cost of removal in  
3 relation to its age of the retirement and see a constantly upward  
4 sloping relationship reflecting the direct impact of inflation. In  
5 Exhibit \_ (JP-7), I have graphed the relationship for account 364.  
6 As can be seen in this graph, as the age of the Company's actual  
7 data increases, the level of cost of removal does not increase as Mr.  
8 Robinson assumes. Simply put, Mr. Robinson has made an invalid  
9 assumption in his model that distorts his results. This approach  
10 does not produce credible results, even to the point where Mr.  
11 Robinson basically must discount or ignore them.

- 12 • Heavy Discounting of Historical Gross Salvage – Mr. Robinson  
13 calculates historical gross salvage averages for the database on  
14 which he relies. In many instances Mr. Robinson finds the high  
15 levels of historical gross salvage unacceptable. He claims that  
16 such amounts can only be attributed to reimbursements for  
17 relocation of investment or items returned to stores (reuse). He  
18 therefore "heavily discounts" these values-- but on an inconsistent  
19 basis. Mr. Robinson's analysis is not based on any investigation of  
20 the underlying transactions to determine the validity of his actions.  
21 Had he undertaken an investigation, he may have found that he has  
22 in effect doubly discounted the impact of reimbursements and  
23 items returned to stores. He did not identify the level of annual

1 retirements attributable to items returned to stores or associated  
2 with reimbursements, nor did he determine the corresponding  
3 values obtained for such transactions. In other words, Mr.  
4 Robinson does not know whether the historical positive levels of  
5 net salvage may only reflect a small level of retirement activity  
6 associated with high levels of reimbursements or returns to stores,  
7 or vice versa. The historical levels of gross salvage may be very  
8 indicative of what can be expected in the future. Without the  
9 benefit of adequate investigation, his decisions to heavily discount  
10 these transactions in his selection process can very well result in a  
11 double discounting for the same event.

- 12 • Failure to Explain Significant Differences from PEF's 2002 Study

13 The Company performed a depreciation study on plant as of 2002;  
14 Mr. Robinson's study was performed on data that included only  
15 one more year. Mr. Robinson has proposed significant changes for  
16 many depreciation parameters without any explanation as to what  
17 caused such changes. In fact, it appears Mr. Robinson was  
18 unaware that a study one year prior to his analysis had been  
19 performed. (See Exhibit \_ (JP-2), Mr. Robinson's deposition at  
20 page 29). Such failure to address Company specific data and  
21 recommendations undermines the credibility of Mr. Robinson's  
22 proposals. For example, in Account 364, the Company  
23 recommended a negative 25% net salvage in its 2002 depreciation

1 study, the same value as the net salvage level that is built into  
2 PEF's existing depreciation rates. Yet, in this proceeding Mr.  
3 Robinson proposes a negative 90% net salvage for this account.  
4 This swing of 65 percentage points, applied to an account  
5 approaching half a billion dollars in investment, has the effect of  
6 reducing the excess reserve position that the Company would  
7 otherwise calculate by over \$300 million as compared to the  
8 reserve associated with the existing net salvage value and that  
9 contained in the 2002 study. This significant modification to the  
10 Company's reserve, and in effect depreciation expense, deserves  
11 detailed and significant investigation. The need for detailed  
12 investigation is especially important given the fact that in 2003--  
13 the one additional year of data that Mr. Robinson relied upon  
14 compared to the Company's 2002 study--the data produced a  
15 positive 193% net salvage for Account 364. In other words, there  
16 was a dramatic increase in the percent level of positive net salvage  
17 in the one additional year and Mr. Robinson dramatically reduced  
18 net salvage (by increasing the negativity of the net salvage factor).  
19 This is one example among several in which "judgment" appears  
20 to conflict with, rather than apply, facts and logic.

- 21 • Failure to Perform Check of Reasonableness – PEF's depreciation  
22 study developed by Mr. Robinson appears to be basically silent  
23 regarding employing a sanity check or check of reasonableness for

1 his proposals compared to industry data. This failure to perform  
2 such a check of reasonableness is contrary to Mr. Robinson's  
3 stated position in testimony before another state regulatory agency,  
4 and is inconsistent with normal practices. (See Exhibit \_ (JP-8)).  
5 For example, if Mr. Robinson had performed the sanity check or  
6 check for reasonableness for his negative 90% proposal for  
7 Account 364 - Distribution Poles, Towers & Fixtures, he would  
8 have found that his proposal was 2 to 3 times higher (that is, more  
9 negative) than the industry average. Had he performed such a  
10 check he might have decided to investigate further and learn the  
11 Company's 2002 study had proposed only a negative 25% factor.  
12 Such additional information, coupled with the 2003 positive  
13 values, may have prevented him from making such a dramatically  
14 abrupt and inappropriate proposal.

- 15 • Anomalous Data — The Company's historical data contains  
16 atypical or unusual values. While it appears from the statements  
17 made during Mr. Robinson's deposition that he was concerned  
18 regarding some of the values, he did not adequately investigate or  
19 receive information from the Company that would explain what  
20 caused the data he has admitted are anomalous or "bogus". (See  
21 Exhibit \_ (JP-2), Mr. Robinson's deposition at pages 141 and 142  
22 for examples). Unfortunately, Mr. Robinson included such data in  
23 his analysis, which in part helps explain why modifications are

1 required in order to present more appropriate values for ratemaking  
2 purposes.

- 3 • Inconsistent Approach – While Mr. Robinson claimed during his  
4 deposition that he had performed the same sequence of events in  
5 developing his net salvage proposals, he failed to note that within  
6 the sequence he inconsistently picks and chooses values. For  
7 example, in Account 353 – Transmission Station Equipment, Mr.  
8 Robinson relied, in part, on his review of historical data, zeroing in  
9 on the fact that the positive net salvage declined and became  
10 “negative during more recent years.” (See Exhibit \_ (JP-3), page  
11 4-26 of the 2003 depreciation study). This is in part why he  
12 ignored the historical 32% positive net salvage and proposed a zero  
13 level. Mr. Robinson relied on the two negative net salvage values  
14 that occurred in two recent years out of 29 years of historical data.  
15 He relied on these data points even though he agreed the two  
16 negative values were potentially anomalous and reflected very  
17 small negative values that were subsequently followed by a  
18 significant positive value in 2003. (See Exhibit \_ (JP-2), Mr.  
19 Robinson’s deposition at page 106). The very small values in 2001  
20 and 2002 are driven by the \$7,211.70 and \$0.00 gross salvage  
21 amounts, respectively, compared to the \$694,682.13 annual  
22 average over the database without those two years. (See Exhibit \_  
23 (JP-3), pages 8-70, 8-71, and 8-73 of the 2003 depreciation study).

1 This approach of zeroing in on one or two years of data within his  
2 database is contrary to his statement in his deposition. There he  
3 stated that he would “look what those [historical data] produced  
4 overall and make my assessment from there, rather than trying to  
5 pinpoint one or two items on the page, knowing that there’s a  
6 whole range of data there.” (Emphasis added). (See Mr.  
7 Robinson’s deposition transcript at page 120 at Exhibit \_ (JP-2)).  
8 In effect, what Mr. Robinson has presented is a consistent process  
9 that establishes a wide range of potential values without any  
10 specifics as to why he chose his ultimate proposal. This process of  
11 not documenting the Company’s basis, allows for an arbitrary  
12 discounting of data. When Mr. Robinson was asked in his  
13 depositions what basis he used to discount values, he states he had  
14 no specific basis. (See Exhibit \_ (JP-2), Mr. Robinson’s deposition  
15 at page 128). He further states he had no consistent or identifiable  
16 basis that he applied to each account, thus allowing him to choose  
17 and be inconsistent between accounts. (See Exhibit \_ (JP-2), Mr.  
18 Robinson’s deposition at page 128). While a depreciation analyst  
19 must have some degree of flexibility in the establishment of  
20 parameters, the different approaches and inconsistent reliance on  
21 the data within a process should be reasonably explained. Mr.  
22 Robinson’s study is devoid of such meaningful explanation.

- Accounting for Replacement Activity – The Company has not identified, nor substantiated, those dollars that have been allocated between the cost of a new replacement addition and the cost or removal associated with the retired plant. The Company's apparent arbitrary and unsubstantiated level of allocation cannot be allowed to buttress an increase in cost of removal absent a clear and adequate demonstration as to the appropriate and necessary process assumptions, and consideration employed by the Company.

These major problems, along with others, permeate Mr. Robinson's selection process.

#### B. Account Specific Adjustments

##### a. Account 353.1 – Transmission Station Equipment

Q. WHAT HAS THE COMPANY PROPOSED FOR NET SALVAGE IN ACCOUNT 353.1 – TRANSMISSION STATION EQUIPMENT?

A. The Company has proposed a 0% level of net salvage for its investment in Account 353.1. This is a decrease of 10 percentage points from the existing +10% net salvage (that is, a higher costs to customers). The Company's basis for its proposal is its claim that net salvage has "varied widely over the years with positive salvage declining and even becoming negative during more recent years."

The Company further states that it estimates the future net salvage will be a

1 negative 50% "based upon the recent experience and anticipated increased cost of  
2 removal in the future." (See Exhibit \_ (JP-3), the 2003 depreciation study at page  
3 4-26).

4  
5 Q. DO YOU AGREE WITH THE COMPANY'S CONCLUSION?

6 A. No. The Company's basis for a 0% net salvage is misleading. First, the  
7 referenced recent negative values occurred only twice in the past 29 years, and  
8 these occurrences coincide with very small dollar amounts. Next, none of the 3-  
9 year bands presented by PEF were negative, and the lowest 3-year band was still a  
10 positive 5%. There was not another single band that was lower than a positive  
11 11%. Depreciation analysts roll data into multi-year bands for the very reason  
12 that single year values can be misleading and that some level of materiality must  
13 be obtained. Moreover, the most recent year's activity yielded a positive 24% net  
14 salvage. The Company's statement that its future net salvage forecast "is  
15 approximately negative fifty (50) percent" is an excellent example of just how  
16 little credibility can be assigned to the Company's forecasting process. The  
17 forecast is comprised of gross salvage and cost of removal components. The  
18 gross salvage component was based on a linear trend and produced a negative  
19 21.41%. As I stated earlier in my general comments on Mr. Robinson's tools and  
20 methodology, this represents an impossible result, as gross salvage by definition  
21 can only be zero or more. Unfortunately, Mr. Robinson was not deterred by the  
22 impossible value, since he employed it in his overall future negative 50% net  
23 salvage forecast: (-21.41% impossible gross salvage - 28.29% cost of removal = -



1 49.70% net salvage factor). (See Exhibit \_ (JP-3), page 8-73 of the 2003  
2 depreciation study).

3  
4 Mr. Robinson's position on the gross salvage estimate changed during his  
5 deposition. In his deposition, Mr. Robinson finally recognized the negative 20%  
6 gross salvage as an impossible value and stated that "would have been zero." He  
7 also stated he "really highly discounted the [historical] gross salvage" and came  
8 up to a 10% value from the historical 41% level. (See Mr. Robinson's deposition  
9 transcript at page 101 at Exhibit \_ (JP-2)). However, his answer is refuted by the  
10 mathematical precision of his derivation of the net salvage factor for this account.

11  
12 Mr. Robinson also admitted in his deposition that the two recent years where  
13 negative net salvage occurred, and were part of his basis for a 0% proposal,  
14 reflected "very low" levels of gross salvage. He relied on these "very low" gross  
15 salvage values even though he admitted those values --compared to other gross  
16 salvage values in his database-- were "anomalous". (See Exhibit \_ (JP-2), Mr.  
17 Robinson's deposition at pages 106 and 107). Thus, only from Mr. Robinson's  
18 deposition can one begin to narrow down the possible basis for his gross salvage  
19 estimate. It appears that he ignored the trend analysis he provided in the  
20 depreciation study and also "highly discounted" the historical gross salvage.

21  
22 Mr. Robinson's basis for his proposal of a 10% cost of removal is equally unclear.  
23 His study calculates a 28.29% future cost of removal, not 10%. The inflation-

1 based forecast has previously been discussed and shown to be fatally flawed. Mr.  
2 Robinson appears to recognize the flaw by eliminating approximately 65% of the  
3 calculated value in arriving at his final proposal ( $[28.29\% - 10\%] / 28.29\%$ ). Mr.  
4 Robinson's reliance on historical data may have also been skewed to an  
5 abnormally high level due to historical costs associated with the removal of  
6 transformers contaminated with PCBs—a cost that PEF no longer incurs. While  
7 Mr. Robinson inquired about PCBs remaining in the system, he admitted in his  
8 deposition that, "there could have been some more PCBs during the 1985 to 1995  
9 time frame." (See Exhibit \_ (JP-2), Mr. Robinson's deposition at page 105). It is  
10 during this time frame the Company incurred its highest percentage levels of cost  
11 of removal. Unfortunately, it does not appear that he took this fact into account to  
12 also "discount" historical cost of removal as he did gross salvage.

13  
14 Q. WHAT WAS THE COMPANY'S RECOMMENDATION FOR THIS  
15 ACCOUNT IN ITS 2002 DEPRECIATION STUDY?

16 A. PEF recommended a 10% positive net salvage only one year earlier in the PEF's  
17 2002 depreciation study. (See Exhibit \_ (JP-9), 2002 depreciation study at page  
18 PEF-RC-017675). The one-year of additional activity produced a positive 24%  
19 net salvage for that year. The Company has not demonstrated why a 10-  
20 percentage point reduction in net salvage is warranted after only one-year when  
21 that one additional year of experience and data indicates a higher, not lower, gross  
22 salvage.

1 Q. WHAT NET SALVAGE LEVEL DO YOU RECOMMEND FOR THIS  
2 ACCOUNT?

3 A. I am recommending a positive 10% net salvage as a reasonable level. I base my  
4 recommendation on (1) the fact that this Company previously analyzed the data  
5 through 2002 and recommended a positive 10% net salvage, (2) the additional  
6 data for 2003 was a positive 24% net salvage indicating an even greater positive  
7 value may be appropriate, (3) not a single 3-year rolling band analysis yielded less  
8 than a 5% net salvage and in fact all but one yielded greater than a positive 11%  
9 net salvage value, (4) the only historical negative net salvage values occurred in 2  
10 years where the data is "anomalous", and (5) a review of industry data confirms  
11 that a small positive net salvage is appropriate. While a more positive value may  
12 be warranted, the retention of the existing 10% value, which was reaffirmed by  
13 the Company in its 2002 study, is reasonable at this time.

14  
15 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATIONS?

16 A. My recommendation results in a \$1,035,669 reduction to depreciation expense or  
17 a \$41,426,841 increase in the excess reserve imbalance based on plant as of  
18 December 31, 2005.

19

20 b. Account 355 – Transmission Poles & Fixtures

21

1 Q. WHAT HAS THE COMPANY PROPOSED FOR ACCOUNT 355 –  
2 TRANSMISSION POLES & FIXTURES?

3 A. The Company has proposed a negative 25% net salvage. This is a 5-percentage  
4 point reduction—(that is, less negative)-- from the current negative 30% net  
5 salvage.

6

7 Q. WHAT IS THE COMPANY'S BASIS FOR ITS PROPOSED NET SALVAGE?

8 A. The Company states that this account has encountered a wide range of net salvage  
9 (positive 150% to a negative 125%). According to PEF, the highest (positive)  
10 levels are due to plant being returned to stores. The Company incurred high  
11 levels of negative net salvage in recent years and anticipates future net salvage to  
12 be negative 66% based on its linear trend and inflation analyses. Based on some  
13 unidentified blending of historical analysis results and consideration of its  
14 anticipated future analysis, PEF proposes a negative 25% as a reasonable level for  
15 this account. (See Exhibit \_ (JP-3), 2003 depreciation study at pages 4-29 and 4-  
16 30). Mr. Robinson also states in his deposition that he performed "the same sort  
17 of sequence, nothing different about the sequence that we would go through" in  
18 the determination of his net salvage parameters for all accounts. (See Mr.  
19 Robinson's deposition transcript at page 112 at Exhibit \_ (JP-2)).

20

21 Q. DO YOU AGREE WITH THE COMPANY'S RECOMMENDATION?

22 A. No. As Mr. Robinson noted in his deposition, this is again an account where he  
23 elected to "really discount" or employ "conservative moderation" to ignore the

1 results of his inflation based forecasts. (See Mr. Robinson's deposition transcript  
2 at page 114 at Exhibit \_ (JP-2)). In his deposition, he also admits to what "would  
3 appear to [an] anomalous" gross salvage value that was materially lower than all  
4 28 other years of data, but elected not to investigate it any further. (See Mr.  
5 Robinson's deposition transcript at page 120 at Exhibit \_ (JP-2)). It may have  
6 made little difference in his proposal given his inappropriate decisions to heavily  
7 or "really discount" gross salvage. Moreover, for some unexplained reason, Mr.  
8 Robinson, stated in his deposition that he elected to employ a philosophy of  
9 "conservative moderation." (See Mr. Robinson's deposition transcript at page  
10 114 at Exhibit \_ (JP-2)). His philosophy caused him to discount his forecasted  
11 result for this account from a negative 65.58% to a negative 25%, a 62% discount.  
12 It must be noted that for transmission Account 353.1 – Station Equipment, Mr.  
13 Robinson chose to discount his forecasted net salvage value by 100%. The  
14 difference is unexplained.

15  
16 Mr. Robinson's proposal also fails to reasonably recognize his own 3-year rolling  
17 band standard approach. Only 1 of the past five 3-year rolling bands resulted in a  
18 negative value, and that value was a negative 16%, much lower (less negative)  
19 than his proposed negative 25%. It should also be noted that only two of the 27 3-  
20 year rolling bands produced values more negative than the proposed value.

21  
22 As far as future expectations, the depreciation study remains silent, as do Mr.  
23 Robinson's notes. The depreciation study states that "the historical analysis

1 results and consideration of the forecasted analyses” was the basis for the  
2 proposal. As noted above, historical values do not justify the proposal and Mr.  
3 Robinson’s discounting of his flawed forecast analysis is meaningless.  
4

5 Q. WHAT NET SALVAGE VALUE DO YOU RECOMMEND?

6 A. I recommend a negative 15% for this account. I base my recommendation on (1)  
7 a negative net salvage value appears only once in the last 5 3-year rolling bands,  
8 (2) only 2 of the historical 3-year rolling bands had values more negative than  
9 16%, (3) the value falls well within the industry reasonable range, (4) the  
10 Company has consistently experienced significant levels of gross salvage in all  
11 years of its database except for the one year that Mr. Robinson admits may be  
12 anomalous, and (5) the expectation that the Company will continue to experience  
13 some level of reuse or reimbursements in its annual retirements.  
14

15 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

16 A. The impact of my recommendation is a \$916,183 reduction to depreciation  
17 expense, or a \$28,630,770 increase in the excess reserve imbalance based on plant  
18 as of December 31, 2005.

19 c. Account 356 – Transmission Conductors & Devices  
20

21 Q. WHAT HAS THE COMPANY PROPOSED FOR ACCOUNT 356 –  
22 TRANSMISSION CONDUCTORS & DEVICES FOR NET SALVAGE?

1 A. The Company has proposed a negative 30% net salvage. This is a 10-percentage  
2 point increase (that is, increase in negativity, meaning an increase in costs to be  
3 collected from customers) in negative net salvage from the existing level of a  
4 negative 20%.

5  
6 Q. WHAT IS THE COMPANY'S BASIS FOR ITS PROPOSED NET SALVAGE?

7 A. PEF's study states that even though history shows a positive 35% net salvage, this  
8 account has varied widely from a positive 255% to a negative 57%. The  
9 Company claims that recent positive gross salvage is due to reuse of poles. PEF  
10 has estimated that future net salvage will be approximately a negative 57% net  
11 salvage. The Company further notes that it has experienced negative net salvage  
12 in recent years. The Company also notes that its forecast analysis anticipates  
13 negative net salvage, which reinforces its "expectation" of more negative net  
14 salvage. Finally, the Company states that it based its proposal on "historical  
15 experience and anticipated future net salvage." (See Exhibit \_ (JP-3), the 2003  
16 depreciation study at pages 4-30 and 4-31).

17

18 Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED VALUE?

19 A. No. PEF's negative 30% net salvage is based on an unsubstantiated elimination  
20 of most of the historical gross salvage as being unrepresentative. Positive gross  
21 salvage (that is, value greater than zero) has been notable in all years of the  
22 database. While Mr. Robinson recognized in his deposition that items returned to  
23 stores can produce gross salvage values "greater than what you paid for it", he

1 failed to investigate the level of return to stores or reimbursements that will  
2 continue to occur in the future. (See Mr. Robinson's deposition transcript at  
3 pages 123 and 124 at Exhibit \_ (JP-2)). Without the benefit of the level of reuse  
4 and reimbursements, and the corresponding gross salvage, it is inappropriate to  
5 simply eliminate significant levels of gross salvage that have occurred annually  
6 throughout the database. Mr. Robinson's decision to again ignore his gross  
7 salvage linear trend and discount the historical gross salvage experience by 87%  
8 without investigation is not credible, especially given the depreciation study's  
9 reference to "historical experience" as part of its basis. Further from the  
10 standpoint of "historical experience," it must be noted that out of the 27 bands,  
11 only one of the 3-year bands exhibited a negative level greater than a negative  
12 18% net salvage. (See Exhibit \_ (JP-3), 2003 depreciation study at page 8-72).

13  
14 Another significant consideration is that in the Company's 2002 depreciation  
15 study, it concluded a negative 15% net salvage would be appropriate. (See  
16 Exhibit \_ (JP-9), 2002 depreciation study at page PEF-RC-017677). It is hard to  
17 justify a proposed negative net salvage that is double (that is, twice as negative)  
18 the 2002 study amount based on 1-year of additional data. Moreover, if the  
19 doubling of the negative net salvage is based on the negative value that was  
20 booked in 2003, then Mr. Robinson would have violated his own standard of not  
21 relying on one or two years of data compared to his entire database. In addition, it  
22 must be noted that the 2003 negative salvage experience by the Company  
23 corresponds to one of the lowest levels of retirement activity in the past 29 years.



1 The Company reported that it retired only \$286,972 of plant in 2003, while the  
2 average retirement level over the prior 28 years was \$981,059. (See Exhibit \_  
3 (JP-3), 2003 depreciation study pages 8-85, 8-86, and 8-88). It is also  
4 unexplained why Mr. Robinson decided to discount the forecasted results for this  
5 account by only 47% compared to the 100% discount level for account 353.1 and  
6 the 62% level for account 355.

7  
8 Q. WHAT NET SALVAGE LEVEL ARE YOU RECOMMENDING?

9 A. I recommend a negative 10% net salvage. My recommendation is based on (1)  
10 recognition that while the historical database is significantly positive for all but a  
11 few years, the composition of the historical data is not known, (2) industry  
12 averages indicate nothing as low as a zero (0) value is appropriate, but that values  
13 up to a negative 25% are within the reasonable range, (3) the Company's 2002  
14 study recommended a negative 15% or a less negative value than the existing  
15 level, and (4) the Company did not identify any factors, other than the previously  
16 debunked concept of inflation, that would support anything other than a  
17 movement toward the relationship exhibited by history.

18  
19 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

20 A. The impact of my recommendation is a \$1,317,991 reduction to depreciation  
21 expense, or a \$43,933,098 increase in the excess reserve imbalance based on plant  
22 as of December 31, 2005.

1

2 d. Account 362 – Distribution Station Equipment

3

4 Q. WHAT HAS THE COMPANY PROPOSED FOR ACCOUNT 362 –  
5 DISTRIBUTION STATION EQUIPMENT FOR NET SALVAGE?

6 A. PEF has proposed a negative 15%. This is a significant change, from the  
7 Company's existing net salvage of a positive 15%.

8

9 Q. WHAT IS THE COMPANY'S BASIS FOR ITS PROPOSED NET SALVAGE  
10 PERCENTAGE?

11 A. In its study, the Company recognizes that it historically experienced  
12 approximately a positive 25% net salvage. However, Mr. Robinson discounts this  
13 data due in part to his belief that it principally reflects relocations and reuses.  
14 PEF does not expect the relocation and reuses to continue at the same level in the  
15 future. The Company further recognizes that positive net salvage has been  
16 declining in the recent years and started turning negative. Finally, the Company  
17 relies on its forecasted net salvage at a negative 30%. Giving "consideration" to  
18 the recent experience and its forecast, but not stating specifically how, the  
19 Company proposes a negative 15%. (See Exhibit \_ (JP-3), 2003 depreciation  
20 study at pages 4-35 and 4-36).

21

22 Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED VALUE?

1 A. No, I do not agree with the Company's proposal. The Company has not provided  
2 any reasonable or credible basis to support its proposed negative 15%; especially  
3 given it is proposing a full 30-percentage point swing in net salvage from the  
4 existing rate. Given that the balance for this account is \$370 million, a 30-  
5 percentage point swing represents a \$111 million movement in the balance of the  
6 reserve.

7  
8 Review of the historical data demonstrates that there has not been a single year of  
9 activity during the past 29 years in which the net salvage exceeded (that is, was  
10 less in value than) a negative 13%. Out of the entire period, only 3 years had any  
11 negative value. The net salvage for the past 5 and 10-year periods is positive 12%  
12 and a positive 20%, respectively. The overall value is a positive 25%. Moreover,  
13 not a single valid year in the database had a cost of removal as high as the  
14 inflation-based forecasts of the Company.

15  
16 The Company's 2002 depreciation study recommended the continued use of a  
17 positive gross salvage due to return to stores associated with growth in the system.  
18 The system is still growing. (See Exhibit \_ (JP-9), 2002 depreciation study at  
19 page PEF-RC-017682). While PEF did experience a negative value in a few  
20 years, it must be noted that those years corresponded to the lowest levels of gross  
21 salvage in history. Moreover, had Mr. Robinson reviewed industry averages as a  
22 check for reasonableness, he most likely would not have proposed such a negative  
23 value.

1 Q. WHAT RATE ARE YOU RECOMMENDING?

2 A. I recommend a zero (0) % level of net salvage. My recommendation is based on  
3 (1) the strong historical activity of the Company indicating that a positive value  
4 would be appropriate, (2) the fact that historical data for this account likely  
5 understates net salvage due to the probable inclusion of costs associated with  
6 disposal of PCBs, (3) the Company's recommendation of a 5% positive value in  
7 its 2002 depreciation study, and (4) industry confirmation of net salvage value of  
8 approximately zero as being reasonable.

9

10 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

11 A. The impact of my recommendation is a \$1,665,887 reduction to depreciation  
12 expense or a \$55,529,642 increase in the excess reserve imbalance based on plant  
13 as of December 31, 2005.

14

15 e. Account 364 – Distribution Poles, Tower & Fixtures

16

17 Q. WHAT HAS THE COMPANY PROPOSED FOR ACCOUNT 364 –  
18 DISTRIBUTION POLES, TOWER, AND FIXTURES FOR NET SALVAGE?

19 A. The Company has proposed a negative 90% for Account 364, Distribution Poles,  
20 Tower, and Fixtures. This is a significant increase (that is, greater negativity and  
21 greater amount to collect from customers) in net salvage from the existing  
22 negative 25% for such a large account.

1 Q. WHAT IS THE COMPANY'S BASIS FOR ITS PROPOSED NET SALVAGE  
2 PERCENTAGE?

3 A. Historically the Company has incurred a negative 6% net salvage for this account.  
4 However, in its study Mr. Robinson identified that the negative net salvage has  
5 been escalating in more recent years, with several recent 3-year bands producing  
6 results far in excess of a negative 100%. Based on this experience and experience  
7 of its affiliates, the Company believes a dramatic change to a negative 90% net  
8 salvage is now representative of this account. (See Exhibit \_ (JP-3), 2003  
9 depreciation study at pages 4-36 and 4-37).  
10

11 Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED VALUE?

12 A. No. The Company has not justified a negative 90% for this account. The  
13 information presented by the Company does not justify a 65 percentage point  
14 swing in net salvage from the existing level of a negative 25%, which,  
15 incidentally, was also the value that PEF deemed appropriate in PEF's 2002  
16 depreciation study. (See Exhibit \_ (JP-9), 2002 depreciation study at page PEF-  
17 RC-17682). Reviewing the Company's data for the past ten years yields that  
18 PEF's historical experience exceeded a negative 90% in only two years during  
19 this period. This is important, because Mr. Robinson not only relied on this time  
20 period for his proposal but also recognized that the values for 2001 (one of the  
21 two years in which PEF recorded net salvage more negative than -90%) were  
22 "bogus." (See Exhibit \_ (JP-2), Mr. Robinson's deposition at page 141).  
23 Moreover, those two years (2001 and 2002) correspond to the two lowest levels of

1 retirement activity during the entire 29-year database. Those two years  
2 experienced retirements of \$501,139 and \$194,928, respectively, while the  
3 average for the remaining periods was \$1,922,196. (See Exhibit \_\_ (JP-3), pages  
4 8-109 and 8-112 of the 2003 depreciation study). In his deposition, Mr. Robinson  
5 attempted to address his inconsistent discounting of “bogus” gross salvage and  
6 cost of removal values for the 2001 data. There he stated his belief that “even if  
7 you take that [year 2001 bogus value] out, you’re still talking relatively high  
8 numbers.” He was not sure if he actually did that calculation, but if he did, it was  
9 done “mentally.” (See Mr. Robinson’s deposition transcript at pages 142 and 143  
10 at Exhibit \_\_ of (JP-2)). In fact, had Mr. Robinson performed the actual  
11 calculation for the most recent 10 years of his database minus the “bogus” 2001  
12 values, the resulting “relative high number” would have yielded only a negative  
13 36% net salvage. This is a far cry from the negative 90% Mr. Robinson  
14 apparently believed would result from his “mental” approach.

15  
16 As I mentioned earlier, the 2002 Company depreciation study also recommended  
17 a negative 25% net salvage, the same as the existing level. Given this situation,  
18 one would assume that the data for the additional year 2003 must be the driving  
19 force for Mr. Robinson’s proposed change from that based on historical  
20 experience. However, the net salvage for this account in 2003 was a positive  
21 193%! The actual data contradicts the basis stated by Mr. Robinson in his  
22 deposition. (See Mr. Robinson’s deposition transcript at pages 141 and 142 at

1 Exhibit \_ of (JP-2)). There, when faced with his inconsistent discounting  
2 approach he stated:

3 “You look at what the average is, you look at what the number is, and then  
4 you look at the data and say, ‘Wait a second. For the last decade we’ve  
5 been seeing this kind of experience, so isn’t it rational to believe that in  
6 the future that’s going to continue?’” The most recent 10-year data, minus  
7 the “bogus” values, and the fact that all but one of the remaining years did  
8 not exceed his proposed negative 90% proposal clearly demonstrate the  
9 excessive level of his proposal.

10 Yet another inconsistent action by Mr. Robinson is his failure to apply the concept  
11 of gradualism to his proposal for this account. When asked in his deposition  
12 about applying the concept of gradualism in view of the magnitude of his  
13 proposed change, his response was while “anything is possible,” that “isn’t my  
14 recommendation.” He further stated that even given the magnitude of swing  
15 caused by his proposal he would not temper his position “unless there was some  
16 specific information” that was applicable “to all the assets” to indicate otherwise.  
17 (See Mr. Robinson’s deposition transcript at page 138 through 140 at Exhibit \_  
18 (JP-2)). When making that statement, Mr. Robinson apparently forgot the  
19 response he developed to Citizens Interrogatory 174. There, when discussing  
20 account 362 (for which his analysis forecasted a negative 30%), he proposed a  
21 negative 15% since “conservatism suggests a more gradual movement in that  
22 direction.” (Emphasis added). (See Exhibit \_ (JP-10)).  
23

1 Q. WHAT DO YOU RECOMMEND?

2 A. I am recommending a negative 35% net salvage as a reasonable value for this  
3 account. This is a 10-percentage point increase (greater negativity) to the existing  
4 net salvage. This recommendation looks beyond the impact of the 619% gross  
5 salvage and 1,091% cost of removal values recorded in 2001, which Mr.  
6 Robinson agrees are "bogus". The recommendation is similar not only to the  
7 negative 25% existing value, but also similar to the same value recommended by  
8 PEF in its 2002 depreciation study. Unlike Mr. Robinson's proposal, my  
9 recommendation is right in line with industry averages. Mr. Robinson's dramatic  
10 change would place the Company at the upper end of the industry values for  
11 negative net salvage. Further, my recommendation does not suffer from all of the  
12 variance problems I identified in the General section of my net salvage related  
13 testimony.

14

15 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

16 A. Relative to PEF's study and proposal, the impact of my recommendation is a  
17 \$15,070,658 reduction to depreciation expense, or a \$262,305,794 increase in the  
18 excess reserve imbalance based on plant as of December 31, 2005.

19

20 f. Account 365 – Distribution Overhead Conductors & Devices

21



1 Q. WHAT HAS THE COMPANY PROPOSED FOR ACCOUNT 365 –  
2 DISTRIBUTION OVERHEAD CONDUCTORS AND DEVICES?

3 A. The Company has proposed a negative 25% net salvage for this account. This is a  
4 decrease (reduction in negativity, reduction to the amount to be collected) in  
5 negative net salvage from the existing negative 35% level. This value also  
6 corresponds to the Company's 2002 depreciation study recommendation. (See  
7 Exhibit \_ (JP-9), 2002 depreciation study at page PEF-RC-017683).  
8

9 Q. WHAT IS THE COMPANY'S BASIS FOR ITS PROPOSED NET SALVAGE  
10 PERCENTAGE?

11 A. Historically, the Company's data has averaged a positive 4% net salvage.  
12 However, based on its consultant's inflation model for cost of removal and his  
13 linear trend model for gross salvage, the Company forecasts net salvage at a  
14 negative 232%. Reviewing the 3-year rolling band analysis the consultant  
15 identified a historical range from a positive 90% to a negative 323%. Based on  
16 "the Company's overall experience and considerations of the range of three (3)  
17 year rolling band analysis" it estimated a negative 25% net salvage. (See Exhibit  
18 \_ (JP-3), 2003 depreciation study at pages 4-37 and 4-38).  
19

20 Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED VALUE?

21 A. No. The Company has presented no clear basis for a negative 25% for this  
22 account. The trend for gross salvage is noticeably downward, but so is cost of  
23 removal. Only 2 of the 3-year rolling band analysis had a net salvage level during

1 the past 10 years equal to or in excess of a negative 25%. However, those 2 bands  
2 correspond to the two oldest bands (1994-1996 and 1995-1997). Turning to the  
3 annual values, only 3 years in the past 10 had negative values more negative than  
4 a negative 12% and they were the oldest years (1994-1996). Net salvage for the  
5 past five (5) and 10-year periods resulted in a positive 4% and a positive 8%,  
6 respectively.

7  
8 The Company's linear trend analysis again resulted in a theoretically impossible  
9 value, but that did not stop the Company from relying on it to establish its overall  
10 net salvage forecast. The depreciation study sets forth a negative 43.33% gross  
11 salvage and a 188.33% cost of removal to establish a forecasted net salvage of a  
12 negative 231.66%. (See Exhibit \_ (JP-3), 2003 depreciation study at page 8-116).  
13 The consultant's inflation based model again produced results that even Mr.  
14 Robinson basically ignored or heavily discounted (188% indication, reduced by  
15 the analyst to 40%). Thus, the Company's claimed bases of "overall experience",  
16 which was a positive 4%, or "consideration of" the 3-year rolling band analyses,  
17 which were basically positive or under 6% negative levels for the six most recent  
18 3-year bands, do not support and in fact contradict the Company's proposal. The  
19 Company's claimed bases strongly support a less negative value, especially given  
20 that the overall database was a positive 4%.

21  
22 Q. WHAT ARE YOU RECOMMENDING?

1 A. I am recommending a negative 15%. My recommendation is based on a review  
2 of the previously discussed historical data. I did not rely on the gross salvage  
3 linear trend (as it again produced theoretically impossible results) or the inflation  
4 based cost of removal forecasts that Mr. Robinson developed. While I also gave  
5 consideration to the Company's 2002 depreciation study recommendation, I  
6 recognized that the trend for lower cost of removal levels continues into 2003  
7 (only a negative 2%). Finally, while the Company's proposal is not outside the  
8 reasonable range from an industry standpoint, my recommended negative 15% is  
9 more representative of the industry average.

10

11 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

12 A. My recommendation results in a \$2,159,190 reduction to depreciation expense or  
13 a \$49,072,536 increase in the excess reserve imbalance based on plant as of  
14 December 31, 2005.

15

16 g. Account 367 – Distribution Underground Conductors & Devices

17

18 Q. WHAT HAS THE COMPANY PROPOSED FOR ACCOUNT 367 –  
19 DISTRIBUTION UNDERGROUND CONDUCTORS AND DEVICES?

20 A. The Company has proposed a negative 15% net salvage. This is a decrease (that  
21 is, increase in negativity and an increase in the amount to be recovered from  
22 customers through depreciation rates) from the existing net salvage of zero (0)

1 percent and also from the Company's 2002 depreciation study, which also yielded  
2 a zero (0) percent factor for this account.

3  
4 Q. WHAT IS THE COMPANY'S BASIS FOR ITS PROPOSED NET SALVAGE  
5 PERCENTAGE?

6 A. Historically, the Company has incurred a negative 8% for this account. However,  
7 based on inflation model and linear trend analyses within the depreciation study it  
8 forecasted a negative 291% net salvage. The Company stated in its depreciation  
9 study that it based its proposal on "experience and expectations." (See Exhibit \_  
10 (JP-3), 2003 depreciation study at pages 4-39 and 4-40).

11  
12 Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED VALUE?

13 A. No. The considerations to which the depreciation study points do not support this  
14 negative 15% proposal. The Company's 2002 depreciation study recommended a  
15 zero (0) percent net salvage. In 2003, the Company experienced a positive 11%  
16 net salvage for this account. The 2002 depreciation study also noted that,  
17 "abandonment in place is the preferred method of retirement." (See Exhibit \_ (JP-  
18 9), 2002 depreciation study at page PEF-RC-017684). Because "abandonment in  
19 place" means literally what it says, the cost of removal should diminish and  
20 should result in lower levels of negative net salvage. Industry data also yields  
21 average levels of a negative 1% to a negative 11%, depending on the measuring  
22 index. This is consistent with an expectation of abandonment in place as the  
23 primary means of disposal. Moreover, the linear trend analysis within the

1 depreciation study again resulted in theoretically impossible values and its  
2 inflation-based cost of removal model was so far off from reality that even Mr.  
3 Robinson discounted its results by more than 90%.

4  
5 Q. WHAT RATE ARE YOU RECOMMENDING?

6 A. I am recommending a negative 5% net salvage as a reasonable level for this  
7 account. My recommendation is heavily based on the fact that the Company  
8 plans on abandoning plant in service as its preferred retirement method.  
9 Abandonment of retirements rather than removal of plant should reduce the  
10 overall net salvage to something close to zero (0). This is apparently confirmed  
11 by the Company by its recommended zero (0) level of net salvage in its 2002  
12 depreciation study. Moreover, even Mr. Robinson stated in his deposition that he  
13 gave abandonment "consideration" when discounting the historical levels of cost  
14 of removal. (See Mr. Robinson's deposition transcript at page 152 at Exhibit \_  
15 (JP-2)). Industry average values ranged from zero (0) to about a negative 11%.  
16 Therefore, a negative 5% net salvage value appears to be very reasonable.

17  
18 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

19 A. My recommendation results in a \$1,844,786 reduction to depreciation expense or  
20 a \$44,994,837 increase in the excess reserve imbalance based on plant as of  
21 December 31, 2005.

1           h.     Account 368 – Distribution Line Transformers

2  
3     Q.     WHAT HAS THE COMPANY PROPOSED FOR ACCOUNT 368 –  
4           DISTRIBUTION LINE TRANSFORMERS FOR NET SALVAGE?

5     A.     The Company has proposed a negative 10% net salvage for this account. This is a  
6           reduction (that is, increase in the amount of expense to be recovered) of 25  
7           percentage points from its existing level of a positive 15%.

8  
9     Q.     WHAT IS THE COMPANY'S BASIS FOR ITS PROPOSED NET SALVAGE  
10           PERCENTAGE?

11    A.     Historically, the Company has routinely incurred a negative net salvage for this  
12           account, with a negative 7% average for the entire database. In addition, the  
13           Company relied on its inflation and linear trend models that produced a negative  
14           29.6% value. (See Exhibit \_ (JP-3), 2003 depreciation study at page 4-41).

15  
16    Q.     DO YOU AGREE WITH THE COMPANY'S PROPOSED VALUE?

17    A.     No. There has been no clear basis for a negative 10% presented or demonstrated  
18           by the Company. The trend in the most recent data is to a zero (0) level net  
19           salvage. The Company's 3-year rolling band analysis also trends to a zero (0)  
20           value. While the overall average for this account is a negative 7%, it is probably  
21           skewed due to the high disposal costs associated with PCB contaminated  
22           transformers in the past. Industry averages yield a level between a 0% to a  
23           negative 10%.

---

1 Q. WHAT ARE YOU RECOMMENDING?

2 A. I believe a more reasonable value of a negative 5% net salvage should be applied  
3 to this account. The more recent historical data strongly implies a zero (0) to  
4 negative 5% value. The older and overall historical data is most likely skewed to  
5 the negative side due to the disposal costs associated with PCB contaminated  
6 transformers. Given that industry averages also would fully support a negative  
7 5% value, the most appropriate conclusion is a negative 5% net salvage for this  
8 account.

9

10 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

11 A. My recommendation results in a \$1,380,432 reduction to depreciation expense or  
12 a \$20,915,662 increase in the theoretical reserve excess based on plant as of  
13 December 31, 2005.

14 i. Account 369.1 – Distribution Services

15

16 Q. WHAT HAS THE COMPANY PROPOSED FOR ACCOUNT 369.1 –  
17 DISTRIBUTION SERVICES?

18 A. The Company has proposed a negative 75% net salvage for this account. This  
19 represents a 25-percentage point increase (that is, increase in negativity, which  
20 would translate into an increase in the amount of expense to be recovered) from  
21 its existing net salvage of a negative 50%.

22

1 Q. WHAT IS THE COMPANY'S BASIS FOR ITS PROPOSED NET SALVAGE  
2 PERCENTAGE?

3 A. Historically the Company has incurred an average 116% negative salvage value  
4 for this account. The Company also claims that it has routinely experienced  
5 higher levels of negative net salvage over time. The Company further identifies  
6 that its 3-year rolling band analysis yields a range from a positive 40% to a  
7 negative 800%. Therefore, based on the Company's "experience and expectations  
8 and anticipated level of increased retirement activity at progressively higher  
9 retirement cost", it estimates a negative 75% net salvage. (See Exhibit \_ (JP-3),  
10 2003 depreciation study at page 4-42).

11  
12 Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED VALUE?

13 A. No. The Company presented no clear data to demonstrate that a negative 75% is  
14 a reasonable level for this sub account. The Company did recommend a negative  
15 50% level in its 2002 depreciation study. (See Exhibit \_ (JP-9), 2002 depreciation  
16 study at page PEF-RC-017685). The one additional year of data in 2003 reflected  
17 a zero (0) percent net salvage level. Thus, there does not appear to be any  
18 historically based reason to increase (make more negative) its 2002 recommended  
19 negative net salvage level by 25 percentage points. The 2002 depreciation study,  
20 recognized reuse and relocation as significant factors in gross salvage. This is  
21 contrary to Mr. Robinson's unexplained reason for eliminating almost all  
22 consideration of gross salvage. This almost total elimination of gross salvage is  
23 more than questionable given Mr. Robinson's statement in his deposition that he



1 was "unable to really get any definitive answer" to his question as to why gross  
2 salvage was at high levels. (See Exhibit \_\_ (JP-2), Mr. Robinson's deposition at  
3 page 157). Further, Mr. Robinson takes this position in spite of his own linear  
4 trend model that forecasts a positive 192% level for gross salvage.  
5

6 Q. WHAT ARE YOU RECOMMENDING?

7 A. I am recommending the retention of the existing negative 50% net salvage for this  
8 account. My recommendation recognizes that the Company will continue to  
9 receive gross salvage to some extent due to customer requested relocations, a fact  
10 that Mr. Robinson failed to recognize. Until the Company obtains more stable  
11 and reliable data, a negative 50% net salvage is a reasonable level for this  
12 account.  
13

14 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

15 A. My recommendation results in a \$1,018,782 reduction to depreciation expense or  
16 a \$19,743,885 increase in the excess reserve imbalance based on plant as of  
17 December 31, 2005.  
18

19 j. Account 369.2 – Distribution Services  
20

21 Q. WHAT HAS THE COMPANY PROPOSED FOR ACCOUNT 369.2 –  
22 DISTRIBUTION SERVICES, FOR NET SALVAGE?

1 A. The Company has proposed a negative 25% net salvage for this account. This is a  
2 10-percentage point increase (that is, increase in the negativity of the factor,  
3 which would translate to an increase in the amount to be recovered) from its  
4 existing level of negative 15%.

5  
6 Q. WHAT IS THE COMPANY'S BASIS FOR ITS PROPOSED NET SALVAGE  
7 PERCENTAGE?

8 A. Historically, this account yields an overall positive 4% net salvage. The  
9 Company's 3-year rolling band analysis yields a range from a positive 390% to a  
10 negative 52%. The Company's inflation model and linear trend analysis yield a  
11 negative 30%. From these items of information, the Company states that it based  
12 its estimate on the "Company's experience and expectations and anticipated level  
13 of increase retirement activity at progressively higher retirement cost." (See  
14 Exhibit \_ (JP-3), 2003 depreciation study at page 4-43).

15  
16 Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED VALUE?

17 A. No, the Company has provided almost no data to demonstrate that a negative 25%  
18 is a reasonable level for this sub account. While the 2002 depreciation study  
19 recommended a negative 10% net salvage, the one year of subsequent data was  
20 almost \$9 million of retirements and only \$44,135 of negative net salvage, or less  
21 than a negative 1%. (See Exhibit \_ (JP-9), 2002 depreciation study at page PEF-  
22 RC-017686), and Exhibit \_ (JP-3), 2003 depreciation study at page 8-134).  
23 Therefore, the only thing that has materially changed between studies is that the

1 Company is proposing a much more negative net salvage when additional data  
2 indicates otherwise. Contrary to the Company's statements, the trend in the most  
3 recent data is toward a zero (0) level of net salvage, not an increasingly negative  
4 level of net salvage. In addition, the Company's database averaged a positive 4%  
5 net salvage.

6  
7 Mr. Robinson apparently relied heavily on linear trend and inflation based trend  
8 models when assessing this account. The linear trend model once again produced  
9 a theoretically impossible negative value. This did not stop Mr. Robinson from  
10 including it in his total forecast. The depreciation study sets forth a negative  
11 3.42% gross salvage and a 26.76% cost of removal to establish a forecasted net  
12 salvage of a negative 30.18%. (See Exhibit \_ (JP-3), 2003 depreciation study at  
13 page 8-136). Mr. Robinson's inflation model has previously been shown to be  
14 flawed and misguided. Therefore, Mr. Robinson's proposal is contrary to reason  
15 and logic and should be rejected.

16  
17 Q. WHAT ARE YOU RECOMMENDING?

18 A. I am recommending a zero (0) % net salvage for this account as a reasonable  
19 value. My recommendation relies on the trend in the data towards zero (0). I  
20 further consider that future retirement will reflect some level of abandonment, a  
21 concept Mr. Robinson agreed in his deposition. My conclusion is reinforced by  
22 industry averages that support a zero value. (See Mr. Robinson's deposition  
23 transcript at page 161 at Exhibit \_ (JP-2)).

1 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

2 A. My recommendation results in a \$3,197,837 reduction to depreciation expense or  
3 a \$94,054,077 increase in the excess reserve imbalance based on plant as of  
4 December 31, 2005.

5 k. Account 373 – Distribution Street Lighting

6

7 Q. WHAT HAS THE COMPANY PROPOSED FOR ACCOUNT 373 –  
8 DISTRIBUTION STREET LIGHTING, FOR NET SALVAGE?

9 A. The Company has proposed a negative 20% net salvage. This is a 10-percentage  
10 point increase (that is, increase in negativity and increase in expense to be  
11 collected from customers) from the existing net salvage of negative 10% and a 15  
12 percentage point increase from the Company's recommendation in its 2002  
13 depreciation study. (See Exhibit \_ (JP-9), 2002 depreciation study at page PEF-  
14 RC-017688).

15

16 Q. WHAT IS THE COMPANY'S BASIS FOR ITS PROPOSAL?

17 A. While the depreciation study recognizes that the overall experience was a positive  
18 15% net salvage, Mr. Robinson claims that "more recent years have experienced a  
19 considerable amount of negative net salvage in the range of negative twenty (20)  
20 to ninety (90) percent." Mr. Robinson then claims that "future periods are  
21 anticipated to experience similar levels of higher negative net salvage." Finally,

1 he states that his estimate is based on "the trend of recent experience and future  
2 expectations." (See Exhibit \_ (JP-3), 2003 depreciation study at page 4-46).

3  
4 Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED VALUE?

5 A. No. The Company has provided virtually nothing in support of its proposed net  
6 salvage. Its reliance on recent trends and future expectations is misleading. The  
7 trends for the last several 3-year bands are driven heavily by the 2001 activity. In  
8 2001, the Company experienced one of the lowest levels of retirements, but the  
9 second highest dollar level of cost of removal and the highest percentage of cost  
10 of removal. The 2001 retirements figure was \$953,933 while the cost or removal  
11 was \$1,799,003. (See Exhibit \_ (JP-3), page 8-148 of the 2003 depreciation  
12 study). These values compare to average retirement and cost of removal values  
13 for the remaining period of \$2,385,381 and \$380,406, respectively. (See Exhibit  
14 \_ (JP-3), pages 8-148 and 8-151 of the 2003 depreciation study). This data is  
15 more than suspect. In fact, Mr. Robinson could not explain the negative salvage  
16 in 1997. In his deposition, Mr. Robinson stated, "it doesn't make sense." (See  
17 Mr. Robinson's deposition transcript at page 163 at Exhibit \_ (JP-2)). Moreover,  
18 the Company's 2002 depreciation study recommended a reduction in the level of  
19 negative net salvage to only a negative 5%. The trend in the data, other than the  
20 anomalous 2001 data, is more toward a zero (0) level.

21  
22 Q. WHAT ARE YOU RECOMMENDING?

1 A. I am recommending a zero (0) percent net salvage. My recommendation relies on  
2 the trend in the historical data, recognizing that irregularities do exist in the  
3 recorded data. Unlike Mr. Robinson's approach, my recommendation recognizes  
4 some level of gross salvage given that it has continuously been experiencing  
5 positive salvage even during periods when the Company was not selling systems.  
6 Further, industry data also confirm the reasonableness of a zero (0) value.

7

8 Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

9 A. My recommendation results in a \$4,934,540 reduction to depreciation expense or  
10 a \$53,363,464 increase in the excess reserve imbalance based on plant as of  
11 December 31, 2005.

12

13 Q. WHAT IS THE COLLECTIVE IMPACT OF YOUR RECOMMENDATIONS,  
14 AS COMPARED TO PEF'S DEPRECIATION PROPOSAL?

15 A. My recommendations result in a reduction (that is, less negative, meaning lower  
16 expenses to be collected from customers, relative to Mr. Robinson's study) of  
17 \$713,970,605 to the amount of negative net salvage the Company incorporated in  
18 the calculation of its proposed depreciation rates and revenue requirements. The  
19 \$713,970,605 flow back to customers of the resulting additional excess reserve  
20 over 4 years results in a reduction to revenue requirement of \$211 million. Even  
21 if the FPSC flows the excess net salvage reserve over the remaining life of the  
22 plant, this would still result in an annual depreciation expense reduction of  
23 \$34,541,975 below the company's proposal.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.

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**JACOB POUS, P.E. PRINCIPAL  
DIVERSIFIED UTILITY CONSULTANTS, INC.  
B.S. INDUSTRIAL ENGINEERING M.S. MANAGEMENT**

I graduated from the University of Missouri in 1972, receiving a Bachelor of Science Degree in Engineering, and I graduated with a Master of Science in Management from Rollins College in 1980. I have also completed a series of depreciation programs sponsored by Western Michigan University, and have attended numerous other utility related seminars.

Since my graduation from college, I have been continuously employed in various aspects of the utility business. I started with Kansas City Power & Light Company, working in the Rate Department, Corporate Planning and Economic Controls Department, and for a short time in a power plant. My responsibilities included preparation of testimony and exhibits for retail and wholesale rate cases. I participated in cost of service studies, a loss of load probability study, fixed charge analysis, and economic comparison studies. I was also a principal member of project teams that wrote, installed, maintained, and operated both a computerized series of depreciation programs and a computerized financial corporate model.

I joined the firm of R. W. Beck and Associates, an international consulting engineering firm with over 500 employees performing predominantly utility related work, in 1976 as an Engineer in the Rate Department of its Southeastern Regional Office. While employed with that firm, I prepared and presented rate studies for various electric, gas, water, and sewer systems, prepared and assisted in the preparation of cost of service studies, prepared depreciation and decommissioning analyses for wholesale and retail rate proceedings, and assisted in the development of power supply studies for electric systems. I resigned from that firm in November 1986 in order to co-found Diversified Utility Consultants, Inc. At the time of my resignation, I held the titles of Executive Engineer, Associate and Supervisor of Rates in the Austin office of R. W. Beck and Associates.

As a principal of the firm of Diversified Utility Consultants, Inc., I have presented and prepared numerous electric, gas, and water analyses in both retail and wholesale proceedings. These analyses have been performed on behalf of clients, including public utility commissions, throughout the United States and Canada. As president of P&L Concepts, Inc., I perform the same type of services as performed under Diversified Utility Consultants, Inc. in those instances where Diversified Utility Consultants, Inc. does not perform such activities.

I have been involved in over 300 different utility rate proceedings, many of which have resulted in settlements prior to the presentation of testimony before regulatory bodies.

I am registered to practice as a Professional Engineer in the states of Florida, Texas, Mississippi, North Carolina, Arizona, New Mexico, Arkansas, and Oklahoma.

**UTILITY RATE PROCEEDINGS IN WHICH  
 TESTIMONY HAS BEEN PRESENTED BY JACOB POUS**

<b>JURISDICTION/COMPANY</b>	<b>DOCKET NO.</b>	<b>TESTIMONY TOPIC</b>
<b>REGULATORY COMMISSION OF ALASKA</b>		
Beluga Pipe Line Company	P-04-81	Refundable Rates
Kenai Nikiski Pipeline	U-04-81	Rate Base

<b>ALBERTA ENERGY AND UTILITIES BOARD</b>		
AltaLink Management/Transalta Utilities Corp	App. Nos. 1279345 and 1279347	Depreciation
Epcor Distribution, Inc.	App No. 1306821	Depreciation
Enmax Corporation	App No. 1306818	Depreciation
Transalta Utilities Corporation	TFO Tariff Application 1287507	Depreciation
UtiCorp Networks Canada (Alberta) Ltd.	App. No. 1250392	Depreciation

<b>PUBLIC UTILITIES BOARD OF ALBERTA</b>		
Alberta Power Limited	E 91095	Depreciation
Alberta Power Limited	E 97065	Depreciation
Canadian Western Natural Gas Company Limited		Depreciation
Centra Gas Alberta Inc.		Depreciation
Edmonton Power Company	E 97065	Depreciation
Edmonton Power Generation, Inc.	1999/2000	GUR Compliance, Depreciation
Northwestern Utilities Limited	E 91044	Depreciation
NOVA Gas Transmission Ltd.	RE95006	Depreciation
TransAlta Utilities Corporation	E 91093	Depreciation
TransAlta Utilities Corporation	E 97065	Depreciation
TransAlta Utilities Corporation	App No. 200051	Gain on Sale

<b>ARIZONA CORPORATION COMMISSION</b>		
Citizens Utilities Company	E-1032-93-111	Depreciation

<b>ARKANSAS PUBLIC SERVICE COMMISSION</b>		
Reliant Energy ARKLA	01-0243-U	Depreciation



**CALIFORNIA  
 PUBLIC SERVICE COMMISSION**

Pacific Gas & Electric Company	Appl. No. 97-12-020	Depreciation, Net Salvage, and Amortization of True Up
Pacific Gas & Electric Company	Appl. No. 02-11-017	Mass Property Salvage, Net Salvage, Mass Property Life, Life Analysis, Remaining Life, Depreciation
San Diego Gas & Electric Company		Value of Power Plants
Southern California Edison Company	Application 02-05-004	Depreciation, Net Salvage

**COURTS**

112th Judicial District Court of Texas	5093	Ratemaking principles, Calculation of damages
253rd Judicial District Court of Texas	45,615	Ratemaking principles, Level of Bond
126th Judicial District Court of Texas	91-1519	Ratemaking principles, Level of Bond
United States Bankruptcy Court Eastern District. of Texas	93-10408S	Level of Harm, Ratemaking, Equity for Creditors

**PUBLIC SERVICE COMMISSION OF THE  
 DISTRICT OF COLUMBIA**

Washington Gas Light Company	768	Depreciation
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**PUBLIC UTILITY REGULATION BOARD OF  
 EL PASO**

Southern Union Gas Company	1991	Depreciation, Calculation Procedure
Southern Union Gas Company	1997	Depreciation, Calculation Procedure
Southern Union Gas Company	GUD 8878 - 1998	Depreciation, Cash Working Capital, Rate Design, Rate Case Expenses

**FEDERAL ENERGY REGULATORY COMMISSION**

Alabama Power Company	ER83-369	Depreciation
Connecticut Municipal Elect. Energy Coop v Connecticut Light & Power Co.	EL83-14	Decommissioning
Florida Power & Light Company	ER84-379	Depreciation, Decommissioning
Florida Power & Light Company	ER93-327-000	Transmission access
Georgia Power Company	ER76-587	Rate Base
Georgia Power Company	ER79-88	Depreciation
Georgia Power Company	ER81-730	Coal Fuel Stock Inventory, Depreciation
Maine Yankee Atomic Power Company	ER84-344-001	Depreciation, Decommissioning
Maine Yankee Atomic Power Company	ER88-202	Decommissioning



Pacific Gas & Electric	ER80-214	Depreciation
Public Service of Indiana	ER95-625-000, ER95-626-000 & ER95-039-000	Depreciation, Dismantlement
Southern California Edison Company	ER81-177	Depreciation
Southern California Edison Company	ER82-427	Depreciation, Decommissioning
Southern California Edison Company	ER84-75	Depreciation, Decommissioning
Southwestern Public Service Company	EL 89-50	Depreciation, Decommissioning
System Energy Resource, Inc.	ER95-1042-000	Depreciation, Decommissioning
Vermont Electric Power Company	ER83 342000 & 343000	Decommissioning
Virginia Electric and Power Company	ER78-522	Depreciation, Rate Base

**FLORIDA  
PUBLIC SERVICE COMMISSION**

Florida Power & Light Company	790380-EU	Territorial Dispute
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**INDIANA  
UTILITY REGULATORY COMMISSION**

Indianapolis Water Company	39128	Depreciation
Indiana Michigan Power Company	39314	Depreciation, Decommissioning

**KANSAS  
CORPORATION COMMISSION**

Arkansas Louisiana Gas Company	181,200-U	Depreciation
United Cities Gas Company	181,940-U	Depreciation

**LOUISIANA  
PUBLIC SERVICE COMMISSION**

Louisiana Power & Light Company	U-16945	Nuclear Prudence, Depreciation
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**MISSISSIPPI  
PUBLIC SERVICE COMMISSION**

Mississippi Power Company	U-3739	Cost of Service, Rate Base, Depreciation
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**MONTANA  
PUBLIC SERVICE COMMISSION**

Montana Power Company (Gas)	90.6.39	Depreciation
Montana Power Company (Electric)	90.3.17	Depreciation, Decommissioning
Montana Power Company (Electric and Gas)	95.9.128	Depreciation

**CITY OF  
NEW ORLEANS**

Entergy New Orleans, Inc.	UD-00-2	Rate Base, Depreciation
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**PUBLIC SERVICE COMMISSION OF  
NEVADA**

Nevada Power Company	81-602, 81-685 Cons.	Depreciation
Nevada Power Company	83-667, Consolidated	Depreciation
Nevada Power Company	91-5032	Depreciation, Decommissioning
Nevada Power Company	03-10002	Depreciation
Sierra Pacific Power Company	83-955	Depreciation (Electric, Gas, Water, Common)
Sierra Pacific Power Company	86-557	Depreciation, Decommissioning
Sierra Pacific Power Company	89-516, 517, 518	Depreciation, Decommissioning (Elec., Gas, Water, Common)
Sierra Pacific Power Company	91-7079, 80, 81	Depreciation, Decommissioning (Elec., Gas, Water, Common)
Sierra Pacific Power Company	03-12002	Allowable level of plant in service
Southwest Gas Corporation	93-3025 & 93-3005	Depreciation
Southwest Gas Corporation	04-3011	Depreciation

**NORTH CAROLINA  
UTILITIES COMMISSION**

North Carolina Natural Gas	G-21, Sub 177	Cost of Service, Rate Design, Depreciation
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**NORTHWEST TERRITORIES  
PUBLIC UTILITIES BOARD**

Northwest Territories Power Corporation	1995/96 and 1996-97	Depreciation
Northwest Territories Power Corporation	2001	Depreciation

**OKLAHOMA  
CORPORATION COMMISSION**

Arkansas Oklahoma Gas Corporation	PUD 200300088	CWC, Legal expenses, Factoring, Cost Allocation, Depreciation
Oklahoma Natural Gas Company	PUD 980000683	Depreciation, Calculation Procedure, Depreciation on CWIP
Public Service Company of Oklahoma	PUD 960000214	Depr., Interim Activity, Net Salvage, Mass Prop., Rate Calc. Technique
Reliant Energy ARKLA	PUD 200200166	Depreciation, Net Salvage, Software Amortization



**PUBLIC UTILITY COMMISSION OF  
 TEXAS**

Centerpoint Energy Houston Electric LLC	29526	Stranded Costs
Central Power & Light Company	6375	Depreciation, Rate Base, Cost of Service
Central Power & Light Company	8439	Fuel Factor
Central Power & Light Company	8646	Rate Base, Excess Capacity, Depreciation, Rate Design, Rate Case Expense
Central Power & Light Company	9561	Depr., Excess Capacity, Cost of Service, Rate Base, Taxes
Central Power & Light Company	11371	Economic Development Rate
Central Power & Light Company	12820	Nuclear Fuel & Process, OPEB, Pension, Factoring, Depr.
Central Power & Light Company	14965	Depr., Cash Working Capital, Pension, OPEB, Factoring, Demonstration & selling expense, non-nuclear decommissioning
Central Power & Light Company	22352	Depreciation
Central Telephone & United Telephone Company of Texas D/B/A Sprint	17809	Rate case expenses
City of Fredericksburg	7661	Territorial Dispute
El Paso Electric Company	9165	Depreciation
Entergy Gulf States, Inc.	16705	Depr., Prepayments, Payroll Expense, Pension Expense, OPEB's, Cash Working Capital, Transfer of T&D Depr.
Entergy Gulf States, Inc.	21111	Reconcilable fuel costs
Entergy Gulf States, Inc.	21384	Fuel surcharge
Entergy Gulf States, Inc.	23000	Fuel Surcharge
Entergy Gulf States, Inc.	22356	Unbundling, Competition, Cost of Service
Entergy Gulf States, Inc.	23550	Reconcilable fuel costs
Entergy Gulf States, Inc.	24336	Price to Beat
Entergy Gulf States, Inc.	24469	Delay of Deregulation
Entergy Gulf States, Inc.	24953	Interim Fuel Surcharge
Entergy Gulf States, Inc.	26612	Fuel Surcharge
Entergy Gulf States, Inc.	28504	Interim Fuel Surcharge
Entergy Gulf States, Inc.	28818	Cert. for Independent Organization
Entergy Gulf States, Inc.	29408	Fuel Reconciliation
Entergy Gulf States, Inc.	30163	Interim Fuel Surcharge
Gulf States Utilities Company	5560	Depreciation, Fuel Cost Factor
Gulf States Utilities Company	5820	Fuel Cost, Test Energy, Capacity Factors, Heat Rates
Gulf States Utilities Company	6525	Depreciation, Rate Case Expenses
Gulf States Utilities Company	7195 & 6755	Depr., Interim Cash Study, Excess Capacity, Rate Case Exp.

Gulf States Utilities Company	8702	Rate Case Expenses, Depreciation
Gulf States Utilities Company	10,894	Fuel Reconciliation, Rate Case Expenses
Gulf States Utilities Company & Entergy Corporation	11292	Acquisition Adjustment Regulatory Plan, Base Rate, Rate Case Exp.
Gulf States Utilities Company & Entergy Corporation	12423	North Star Steel Agreement
Gulf States Utilities Company & Entergy Corporation	12852	Depreciation, OPEB, Pensions, Cash Working Capitol, Other Cost of Service, and Rate Base Items
Houston Light & Power Company	6765	Depreciation, Production Plant, Early Retirement
Lower Colorado River Authority	8400	Rate Design
Magic Valley Electric Cooperative, Inc.	10820	Cost of Service, Financial Integrity, Rate Case Expenses
Southwestern Bell Telephone Company	18513	Rate case expenses
Southwestern Electric Power Company	3716	Depreciation
Southwestern Electric Power Company	4628	Depreciation
Southwestern Electric Power Company	5301	Depreciation, Fuel Charges, Franchise Fees
Southwestern Electric Power Company	24468	Delay of Deregulation
Southwestern Public Service Company	11520	Depreciation, Cash Working Capital, Rate Case Expenses
Texas-New Mexico Power Company	9491	Avoided Cost, Rate Case Expenses
Texas-New Mexico Power Company	10200	Rate Case Expenses
Texas-New Mexico Power Company	17751	Rate Case Expenses
Texas Utilities Electric Company	5640	Franchise Fees
Texas Utilities Electric Company	9300	Depreciation, Rate Base, Cost of Service, Fuel Charges, Rate Case Expenses
Texas Utilities Electric Company	11735	Cost Allocation, Rate Design, Rate Case Expenses
Texas Utilities Electric Company	18490	Depreciation Reclassification
West Texas Utilities Company	7510	Depreciation, Decommissioning, Rate Base, Cost of Service, Rate Design, Rate Case Expenses
West Texas Utilities Company	10035	Fuel Reconciliation, Rate Case Expenses
West Texas Utilities Company	13369	Depreciation, Payroll, Pension, OPEB'S, cash working capital, fuel inventory, cost allocation, other.
West Texas Utilities Company	22354	Depreciation

**RAILROAD COMMISSION OF  
TEXAS**

Atmos Energy Corporation	9530	Gas Cost, Gas Purchases, Price Mitigation, Rate Case Expense
CenterPoint Energy Entex-City of Tyler	9364	Capital investment, Affiliates
Energas Company	5793	Depreciation
Energas Company v. Westar Transmissions Company	5168 & 4892 Cons.	Cost of Service, Refunds, Contracts, Depreciation
Energas Company	8205	Cost of Service, Rate Base,

		Depreciation, Affiliate Transactions, Sale/Leaseback, Losses, Income Taxes
Energas Company	9002-9135	Depr., Pension, Cash Working Capital, OPEB's, Rate Design
Lone Star Gas Company	8664	Cash Working Capital, Depreciation Expense, Gain on Sale of Plant, OPEB's, Rate Case Expenses
Rio Grande Valley Gas Company	7604	Depreciation
Southern Union Gas Company	2738, 2958, 3002, 3018, & 3019 Cons.	Cost of Service, Rate Design, Depreciation
Southern Union Gas Company	6968 Interim & Cons.	Affiliate Transactions, Rate Base, Income Taxes, Revenues, Cost of Service, Conservation, Depreciation
Southern Union Gas Company	8033 Consolidated	Acquisition Adj., Depr., Accumulated Provisions for Depr., Distribution Plant, Cost of Gas Clause, Rate Case Expenses
Southern Union Gas Company	8878	Depreciation, Cash Working Capital, Gain on Sale of Building, Rate Case Expenses, Rate Design
TXU Lone Star Pipeline	8976	Depreciation, Net Salvage, Cash Working Capital, ALG vs. ELG
TXU Gas Distribution	9145-9147	Depreciation, Cash Working Capital, Revenues, Gain on Sale of Assets, Clearing Accounts, Over Recovery of Clearing Accounts, SFAS 106, Wages and Salaries, Merger Costs, Intra System Allocation, Zero Intercept, Customer Weighting Factor, Rate Design
TXU-Gas Distribution	9400	Depreciation, Net Salvage, Cash Working Capital, Affiliate Transactions, Software Amortization, Securitization, O&M Expenses, Safety Compliance
Westar Transmissions Company	5787	Depreciation, Rate Base, Cost of Service, Rate Design, Contract Issues, Revenues, Losses, Income Taxes

TEXAS WATER COMMISSION		
City of Harlingen-Certificate for Convenience & Necessity	8480C/8485C/8512C	Rate Impact for CCN
City of Round Rock	8599/8600M	Rate Discrimination, Cost of Service
Devers Canal System	8388-M	Affil. Transactions, O&M Exp., Return, Allocation, Acquisition Adj., Retroactive Ratemaking, Rate Case Exp., Depr.
		Cost of Service, Rate base, Ratemaking



Devers Canal System	30102-M	Principles, Affil. Trans.
Southern Utilities Company	7371-R	Affiliate Transactions, Cost of Service
Scenic Oaks Water Supply Corporation	8097-G	Affiliate Transactions, Cost of Service, Rate base, Cost of Capital, Rate Design, Depreciation
Sharyland Water Supply vs. United Irrigation District	8293-M	Rate Discrimination, Cost of Service, Rate Case Exp.
Travis County Water Control & Improv. District No. 20		Cost of Service

**PUBLIC SERVICE COMMISSION OF  
UTAH**

PacifiCorp	98-2035-03	Production Plant Net Salvage, Production Life Span, Interim Additions, Mass Property, Depreciation
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**PUBLIC SERVICE COMMISSION OF  
WYOMING**

PacifiCorp	20000-ER-00-162	Rate Parity
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**PROGRESS ENERGY FLORIDA, INC.**  
**SUMMARY OF RECOMMENDED DEPRECIATION EXPENSE**  
**TEST YEAR ENDED DECEMBER 31, 2005**

<u>Description</u>	<u>Plant Balance at 12/31/2005 (a)</u>	<u>Present Depreciation Rate (b)</u>	<u>Present Depreciation Expense (c)</u>	<u>Company Proposed Depreciation Rate (d)</u>	<u>Company Proposed Depreciation Expense (e)</u>	<u>OPC's Proposed Depreciation Rate (f)</u>	<u>OPC's Proposed Depreciation Expense (g)</u>	<u>Difference (h)</u>
<b>PRODUCTION PLANT:</b>								
Steam Production Plant	\$1,760,864,802	4.25%	\$74,920,862	2.87%	\$50,559,098	2.87%	\$50,559,098	(\$0)
Nuclear Production Plant	\$798,548,506	4.56%	\$36,400,618	2.49%	\$19,886,948	2.49%	\$19,886,948	\$0
Other Production Plant	<u>\$1,444,753,331</u>	3.69%	<u>\$53,302,475</u>	3.61%	<u>\$52,216,973</u>	3.61%	<u>\$52,216,973</u>	(\$0)
Total Production Plant	\$4,004,166,639	4.11%	\$164,623,955	3.06%	\$122,663,019		\$122,663,019	(\$0)
<b>TRANSMISSION &amp; DISTRIBUTION:</b>								
<u>TRANSMISSION</u>								
350.1 Land Rights	\$46,899,087	2.20%	\$1,031,761	1.21%	\$567,479	1.21%	\$567,479	(\$0)
352.0 Structures & Improvements	\$20,849,257	2.10%	\$437,814	1.87%	\$389,881	1.87%	\$389,881	\$0
353.1 Station Equipment	\$414,268,405	2.20%	\$9,113,491	1.78%	\$7,373,978	1.53%	\$6,338,307	(\$1,035,671)
353.2 Station Equipment - Station Control	\$33,051,485	10.90%	\$3,602,599	0.90%	\$297,463	0.90%	\$297,463	\$0
354.0 Towers and Fixtures	\$69,046,582	2.40%	\$1,657,049	1.72%	\$1,187,601	1.72%	\$1,187,601	\$0
355.0 Poles and Fixtures	\$286,307,703	4.00%	\$11,452,022	2.72%	\$7,787,570	2.40%	\$6,871,385	(\$916,185)
356.0 Overhead Conductors & Devices	\$219,665,492	3.30%	\$7,248,742	2.26%	\$4,964,440	1.66%	\$3,646,447	(\$1,317,993)
357.0 Underground Conduit	\$7,181,199	1.80%	\$129,262	1.28%	\$91,919	1.28%	\$91,919	\$0
358.0 Underground Conductors & Devices	\$9,496,402	1.70%	\$161,443	1.13%	\$107,309	1.13%	\$107,309	\$0
359.0 Roads and Trails	<u>\$1,923,606</u>	1.80%	<u>\$34,625</u>	0.76%	<u>\$14,619</u>	0.76%	<u>\$14,619</u>	\$0
Total Transmission	\$1,108,689,218	3.15%	\$34,868,808	2.05%	\$22,782,259		\$19,512,411	(\$3,269,848)
<u>DISTRIBUTION</u>								
360.1 Land Rights	\$557,015	2.20%	\$12,254	1.19%	\$6,628	1.19%	\$6,628	\$0
361.0 Structures & Improvements	\$22,197,122	2.10%	\$466,117	1.86%	\$412,866	1.86%	\$412,866	\$0
362.0 Station Equipment	\$370,197,611	2.30%	\$8,514,175	2.57%	\$9,514,079	2.12%	\$7,848,189	(\$1,665,890)
364.0 Poles, Towers and Fixtures	\$476,919,626	4.20%	\$20,030,624	8.29%	\$39,536,637	5.13%	\$24,465,977	(\$15,070,660)
365.0 Overhead Conductors & Devices	\$490,725,359	4.70%	\$23,064,092	3.34%	\$16,390,227	2.90%	\$14,231,035	(\$2,159,192)
366.0 Underground Conduit	\$172,047,364	2.20%	\$3,784,973	1.78%	\$3,062,443	1.78%	\$3,062,443	\$0
367.0 Underground Conductors & Devices	\$449,948,372	2.90%	\$13,048,683	3.56%	\$16,018,162	3.15%	\$14,173,374	(\$1,844,788)
368.0 Line Transformers	\$418,313,232	4.90%	\$20,496,930	3.80%	\$15,895,903	3.47%	\$14,515,469	(\$1,380,434)
369.1 Services - Overhead	\$78,975,538	4.40%	\$3,474,845	5.45%	\$4,304,167	4.16%	\$3,285,382	(\$1,018,785)
369.2 Services - Underground	\$376,216,307	3.30%	\$12,414,762	3.48%	\$13,092,327	2.63%	\$9,894,489	(\$3,197,838)
370.0 Meters	\$126,354,464	3.80%	\$4,801,470	4.57%	\$5,774,399	4.57%	\$5,774,399	\$0
370.1 Meters - Energy Conservation	\$0	0.00%	\$0		\$0	0.00%	\$0	\$0
371.0 Installation on Customer's Premises	\$3,164,154	6.00%	\$189,849	3.93%	\$124,351	3.93%	\$124,351	\$0
373.0 Street Lighting and Signal Systems	<u>\$266,817,319</u>	8.00%	<u>\$21,345,386</u>	5.85%	<u>\$15,608,813</u>	4.00%	\$10,674,271	(\$4,934,542)
Total Distribution	\$3,252,433,484	4.05%	\$131,644,160	4.30%	\$139,741,002		\$108,468,875	(\$31,272,127)
<b>GENERAL PLANT</b>	\$306,591,363	7.27%	\$22,276,394	7.20%	\$22,065,404	7.20%	\$22,065,404	\$0
<b>TOTAL DEPRECIABLE PLANT</b>	\$8,671,880,704	4.08%	\$353,413,317		\$307,251,684		\$272,709,709	
<b>TOTAL DEPRECIABLE PLANT - PER COMPANY</b>	<u>\$8,671,880,704</u>	4.08%	<u>\$353,413,317</u>		<u>\$307,251,684</u>			<u>(\$34,541,975)</u>
<b>DIFFERENCE</b>	(\$0)		\$0		\$0			

**SOURCE & REFERENCES:**

Column (a), (b), (c) & (e)  
Column (d)  
Column (f)  
Column (g)  
Column (h)

Company's Depreciation Study, Table 1F - FERC Account Future (Pro Forma).  
Company's Depreciation Study, Table 1F - FERC Account Future (Pro Forma); except for changes discussed in testimony.  
Exhibit (JP-1), page 2.  
Column (a) times Column (f).  
Column (g) minus Column (e).

**PROGRESS ENERGY FLORIDA, INC.**  
**SUMMARY OF RECOMMENDED ADJUSTMENTS TO**  
**COMPANY'S DEPRECIATION STUDY - DECEMBER 31, 2003**

Description	Plant	Estimated Net Salvage Rate (%)	Amount	Depreciation	Net	Average Service Life (Yrs)	Curve Type	Average Age (Yrs)	Remaining Life (Yrs)	Annual Accrual	Accrual Rate
	Balance at 12/31/2005			Reserve 12/31/2005	Depreciable Balance						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
PRODUCTION PLANT:											
Steam Production Plant	\$1,760,864,802	-7.55%	(\$132,897,210)	\$1,174,719,635	\$719,042,377	40 - 80	Varies		13.6 - 15.5	\$50,559,098	2.87%
Nuclear Production Plant	\$798,548,506	-18.24%	(\$145,645,372)	\$529,372,572	\$414,821,306	14 - 85	Varies		8.6 - 44.6	\$19,886,948	2.49%
Other Production Plant	\$1,444,753,331	-3.32%	(\$48,004,751)	\$371,845,275	\$1,120,912,807	34 - 58	Varies		15.3 - 22.9	\$52,216,973	3.61%
Total Production Plant	\$4,004,166,639		(\$326,547,333)	\$2,075,937,482	\$2,254,776,490					\$122,663,019	3.06%
TRANSMISSION & DISTRIBUTION:											
TRANSMISSION											
350.1 Land Rights	\$46,899,087	0.00%	\$0	\$14,733,114	\$32,165,973	75.0	R3	18.5	56.5	\$569,007	1.21%
352.0 Structures & Improvements	\$20,849,257	-15.00%	(\$3,127,389)	\$7,415,350	\$16,561,296	60.0	R2.5	17.5	42.5	\$389,678	1.87%
353.1 Station Equipment	\$414,268,405	10.00%	\$41,426,841	\$120,719,924	\$252,121,641	52.0	R1	12.3	39.7	\$6,350,671	1.53%
353.2 Station Equipment - Station Control	\$33,051,485	0.00%	\$0	\$30,637,749	\$2,413,736	17.0	L2	8.9	8.1	\$297,992	0.90%
354.0 Towers and Fixtures	\$69,046,582	-25.00%	(\$17,261,646)	\$55,646,170	\$30,662,057	58.0	R4	32.1	25.9	\$1,184,320	1.72%
355.0 Poles and Fixtures	\$286,307,703	-15.00%	(\$42,946,155)	\$117,963,424	\$211,290,434	40.0	R1.5	9.2	30.8	\$6,860,079	2.40%
356.0 Overhead Conductors & Devices	\$219,665,492	-10.00%	(\$21,966,549)	\$121,009,933	\$120,622,108	48.0	R2	14.9	33.1	\$3,644,172	1.66%
357.0 Underground Conduit	\$7,181,199	0.00%	\$0	\$5,145,496	\$2,035,703	55.0	R2.5	32.8	22.2	\$91,698	1.28%
358.0 Underground Conductors & Devices	\$9,496,402	-3.00%	(\$284,892)	\$7,532,833	\$2,248,461	55.0	R2.5	34.0	21.0	\$107,070	1.13%
359.0 Roads and Trails	\$1,923,606	0.00%	\$0	\$985,685	\$937,921	90.0	R2.5	26.2	63.8	\$14,701	0.76%
Total Transmission	\$1,108,689,218		(\$44,159,790)	\$481,789,678	\$671,059,331					\$19,509,389	1.76%
DISTRIBUTION											
360.1 Land Rights	\$557,015	0.00%	\$0	\$196,213	\$360,802	75.0	R3	20.5	54.5	\$6,620	1.19%
361.0 Structures & Improvements	\$22,197,122	-5.00%	(\$1,109,856)	\$6,498,635	\$16,808,342	55.0	R2.5	14.2	40.8	\$411,767	1.86%
362.0 Station Equipment	\$370,197,611	0.00%	\$0	\$111,170,397	\$259,027,214	45.0	R1	12.0	33.0	\$7,849,310	2.12%
364.0 Poles, Towers and Fixtures	\$476,919,626	-35.00%	(\$166,921,869)	\$216,609,429	\$427,232,066	28.0	L4	10.6	17.5	\$24,483,213	5.13%
365.0 Overhead Conductors & Devices	\$490,725,359	-15.00%	(\$73,608,804)	\$241,466,440	\$322,867,722	33.0	R2	10.3	22.7	\$14,223,248	2.90%
366.0 Underground Conduit	\$172,047,364	0.00%	\$0	\$33,352,717	\$138,694,647	55.0	R3	9.7	45.3	\$3,061,692	1.78%
367.0 Underground Conductors & Devices	\$449,948,372	-5.00%	(\$22,497,419)	\$125,458,460	\$346,987,330	34.0	R3	9.5	24.5	\$14,162,748	3.15%
368.0 Line Transformers	\$418,313,232	-5.00%	(\$20,915,662)	\$216,455,116	\$222,773,779	26.0	R2.5	10.7	15.3	\$14,531,884	3.47%
369.1 Services - Overhead	\$78,975,538	-50.00%	(\$39,487,769)	\$55,001,301	\$63,462,006	36.0	R3	16.7	19.3	\$3,283,084	4.16%
369.2 Services - Underground	\$376,216,307	0.00%	\$0	\$86,272,068	\$289,944,239	38.0	R2.5	8.7	29.3	\$9,895,708	2.63%
370.0 Meters	\$126,354,464	-8.00%	(\$10,108,357)	\$55,698,545	\$80,764,276	26.0	R2.5	12.0	14.0	\$5,768,877	4.57%
370.1 Meters - Energy Conservation	\$0	0.00%	\$0	\$33,378	(\$33,378)	15.0	R2.5	15.0	0.0	\$0	0.00%
371.0 Installation on Customer's Premises	\$3,164,154	0.00%	\$0	\$1,172,452	\$1,991,702	24.0	R2.5	8.0	16.0	\$124,481	3.93%
373.0 Street Lighting and Signal Systems	\$266,817,319	0.00%	\$0	\$151,382,873	\$115,434,446	17.0	L2	6.2	10.8	\$10,674,271	4.00%
Total Distribution	\$3,252,433,484		(\$334,649,735)	\$1,300,768,025	\$2,286,315,194					\$108,476,902	3.34%
GENERAL PLANT	\$306,324,593	0.00%	\$0	\$14,723,537	\$291,601,056	28 - 75	R3 - L0		0 - 22	\$22,055,371	7.20%
TOTAL	\$8,671,613,934		(\$705,356,858)	\$3,873,218,721	\$5,503,752,071					\$272,704,680	

**SOURCE & REFERENCE:**

Column (a)	Company's Depreciation Study, Table 1F - FERC Account Future (Pro Forma).
Column (b)	Company's Depreciation Study, Table 6, except for changes as discussed in testimony.
Column (c)	Column (a) times Column (b).
Column (d)	Company's Depreciation Study, Table 2F - Future (Pro Forma).
Column (e)	Column (a) minus Column (c) minus Column (d).
Columns (f), (g), (h) & (i)	Company's Depreciation Study, Table 6.
Column (j)	Column (e) divided Column (i).
Column (k)	Column (j) divided Column (a).

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 050078-EI

In re: Petition for a Rate  
increase by Progress Energy  
Florida, Inc.

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DEPOSITION OF: EARL M. ROBINSON

TAKEN AT THE INSTANCE: Office of Public Counsel

DATE: June 23, 2005

TIME: Commenced at 9:35 a.m.  
Concluded at 3:54 p.m.

LOCATION: 2540 Shumard Oak Boulevard  
Tallahassee, Florida

REPORTED BY: MARY ALLEN NEEL, RPR  
Notary Public, State  
of Florida at Large

ACCURATE STENOGRAPHY REPORTERS, INC.  
2894 REMINGTON GREEN LANE  
TALLAHASSEE, FL 32308  
(850)878-2221

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1 with, and I presume that -- as a matter of fact, I  
2 know that he certainly was responsible for the first  
3 line review of that, and there were others that looked  
4 at that information. That was just a working copy  
5 that we developed, and then any changes that we made,  
6 we updated the report. If you ask for that report, it  
7 was not a final copy, so it's gone. It doesn't exist.  
8 It was just superseded.

9 Q. Did the review result in any material  
10 changes in terms of comparing the draft to the final?

11 A. No, not at all, mostly feedback relative  
12 to -- a lot of it was maybe narrative. There were  
13 things that we had written in the draft copy, and, of  
14 course, Mr. Krebs worked with me back and forward on  
15 making clarifications in the narrative to make sure  
16 that we had included all the information, that there  
17 wasn't something that we had overlooked or some  
18 reference numbers. It's the proverbial typographical  
19 and editing, that sort of thing. But the numbers, as  
20 I recall, there were no significant changes.

21 Q. Okay. Based on your description thus far,  
22 do I understand correctly that you and others within  
23 your firm performed the entire study?

24 A. Yes.

25 Q. Of the persons who have provided prefilled

1 testimony for Progress Energy, Mr. Bazemore and  
2 Mr. Portuondo sponsor the depreciation study. What  
3 interaction have you had with Mr. Bazemore during the  
4 process of preparing the study?

5 A. I don't believe I've ever spoken to him. I  
6 may have, but -- I'm sure the company can help me out.  
7 Maybe my memory is bad.

8 Q. Well, I'm asking you, sir.

9 A. Oh, I understand, but I have no recollection  
10 of talking to him. If it was, it would have been -- I  
11 just don't recall speaking with him.

12 Q. Well, would it be fair to say then that  
13 Mr. Bazemore had no role in the preparation of the  
14 study?

15 A. Absolutely none.

16 Q. What about Mr. Portuondo? What interaction  
17 have you had with him?

18 A. None.

19 Q. Is it fair to say that Mr. Portuondo had no  
20 role in the preparation of the study?

21 A. Correct.

22 Q. Do the terms of your engagement for this  
23 assignment contemplate the possibility of your  
24 providing testimony?

25 A. Well, I think that depends upon where the

1 relative to the capitalization and retirement of their  
2 assets. You know, they're not abnormal in the sense  
3 of the way that they treat accounting relative to any  
4 other public utility. So that's my understanding of  
5 their operations as to how they assemble their cost  
6 data or their investment data or their retirement data  
7 or what have you.

8 So their practices and procedures in that  
9 context are very consistent with what's -- well, it's  
10 driven by the Uniform System of Accounts, so they  
11 don't have a lot of discretion. So, yes, their  
12 policies and procedures are generally consistent with  
13 what would be expected in a utility.

14 Q. When you requested data from the company,  
15 did you request to see the prior depreciation studies  
16 that were performed either for or by the company?

17 A. I have seen a copy of the '97 study, which  
18 is the prior study, and I obtained or pulled some  
19 information from some of those documents. But as far  
20 as using that as a driving force for the preparation  
21 of our study, that's not the way I operate. Others  
22 may. The way I operate is that I start from ground  
23 zero and look at all the information that I have  
24 relative to historical data.

25 I may refer back to some of those rates and

1 customers monies that customers overpaid over time?

2 MR. WALLS: I'm going to object. Assumes  
3 fact not in evidence, and vague and ambiguous.  
4 If you can answer it, go ahead.

5 A. As I understand it, it was part of the  
6 settlement, and I don't know what the genesis of that  
7 was. You know, settlements are rather strange.  
8 There's all kinds of things that are done in  
9 settlements that don't necessarily make a lot of  
10 sense.

11 Q. Do you personally regard the treatment of  
12 the \$250 million as directed by the Commission as an  
13 appropriate disposition of that money?

14 A. I can't speak to that, because I was not  
15 part -- I was only directed to incorporate that into  
16 the depreciation rates.

17 Q. You have no opinion as to whether it's  
18 appropriate or not?

19 A. No.

20 Q. Do you believe there may be situations in  
21 which the depreciation reserve is so significantly  
22 deficient at a point in time that measures are  
23 warranted which would eliminate the reserve deficiency  
24 over a period of time shorter than the remaining life?

25 A. I have been a staunch supporter of remaining



1 life depreciation for many years. I believe it's an  
2 excellent tool to recover investment, along with  
3 routine completion of depreciation studies.

4 To answer your question, could there be a  
5 situation where some remedy would be required to  
6 recover investments over something other than  
7 remaining life, certainly that's something you would  
8 have to look at on a case-by-case basis, but I think  
9 it would have to be a fairly severe circumstance. It  
10 would depend upon the circumstances behind it.

11 But I've always believed that the average  
12 remaining life technique is an excellent tool to  
13 reconcile or compensate for variances between the book  
14 and the theoretical, because the book and the  
15 theoretical has difficulties of its own, because it  
16 makes an assumption that the current estimates have  
17 always been in place, and that's not true.

18 Q. Have you ever personally advocated a measure  
19 designed to recover a deficiency in an account over a  
20 period shorter than the remaining life?

21 A. Well, the only places that I can think of  
22 that I would have done that would be a situation where  
23 you had a property account that has gone to zero, and  
24 there's a reserve related to it. And we've routinely  
25 in those kind of limited cases said, well, whatever

1 throughout life. But the problem with that is the  
2 fact that level of depreciation is not being used  
3 throughout life.

4 Q. When one compares the theoretical reserve  
5 with the book reserve, is it fair to say that the  
6 comparison produces an indication of whether the  
7 company is either in a surplus or deficiency position  
8 relative to being on course for overall recovery?

9 A. In the comparison of numbers, that's the  
10 kind of -- you get a variance number, with my caveat  
11 that the fault of the theoretical reserve is that it  
12 makes the grand assumption that the parameters used in  
13 the calculation have always been in place, and they  
14 have not. But again, in general terms, that's the  
15 variance calculation to try to define what has been  
16 recovered versus what the theoretical number is.

17 Q. Okay. And that comparison will produce  
18 typically either a positive or a negative number?

19 A. It would be a pure accident if it ever hit  
20 on it, yes. I would like to see that calculation.

21 Q. Assume that a comparison of the book and  
22 theoretical reserves indicates either a surplus or a  
23 deficiency. What courses of action are available to  
24 address that situation?

25 A. Well, my preferred and recommended position

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1       would be that unless there was some catastrophic  
2       event, you apply the remaining life depreciation, and  
3       it takes care of itself. Others would have other  
4       opinions or other approaches to do something with that  
5       variance. It would be questionable as to whether that  
6       would be valid or not.

7           Q.    Have you compared the book and theoretical  
8       reserves that result from the study you prepared?

9           A.    Yes. Consistent with the requirement, Table  
10       5 within our report includes a comparison of the book  
11       and theoretical.

12          Q.    And what does that comparison produce?

13               MR. WALLS: You mean in total, Joe, or in --

14               MR. MCGLOTHLIN: Yes, in dollars.

15          A.    Total or net?

16          Q.    Explain to me the difference.

17          A.    Well, there's 700, and then you've got the  
18       \$250 million.

19          Q.    Oh, if you mean net of the 250, yes, that's  
20       what I'm asking.

21          A.    It's around 500, I think. Somewhere in the  
22       neighborhood of 500 million, I think.

23          Q.    Okay. Relating to the 500 million -- we  
24       calculated it as 504 million, if you'll accept that  
25       subject to check.

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1 A. Yes.

2 Q. When you relate that to the overall  
3 investment in the context of other studies and other  
4 companies you've examined, do you regard that reserve  
5 surplus as small or significant?

6 A. Well, it's not tiny, and it's not huge. And  
7 you've got to recognize what caused some of the  
8 variance.

9 Q. Well, in terms of the relative  
10 significance --

11 A. It's about 14 percent, 15 percent, something  
12 like that.

13 Q. Have you conducted studies that produced a  
14 larger surplus situation?

15 A. Well, like I said before, it's a practice  
16 that in certain states they want to see it. In a lot  
17 of cases, I don't even calculate it.

18 Q. Okay. But with respect to those that you've  
19 calculated, have you ever encountered a situation  
20 where a reserve surplus was more significant than this  
21 one?

22 A. Yes.

23 Q. Can you give me an example?

24 A. Not offhand, but I do recall that -- I think  
25 I've had probably 20 or 25 percent variance. I would

1       have to do some research. I just generally recall  
2       that we've had some high numbers, the ones that we've  
3       seen. But I wouldn't say 14 or 15 percent is that  
4       significant. And you've got to understand part of the  
5       reason why those variances exist.

6             Q.    Okay. Elaborate on that, please.

7             A.    Well, certainly the parameters have been  
8       changed. As I said, the shortfall in the theoretical  
9       reserve implies that the parameters that we're  
10      currently using have always been used. Well, they  
11      haven't been. So to the extent that we've increased  
12      or we've extended life on production plants, on  
13      Crystal River, that in itself made a significant  
14      difference in the theoretical versus the book. That  
15      makes the implication that that life has always been  
16      estimated for those facilities, and that's not true.  
17      And one has to recognize that if you're going to get  
18      that additional life, you're going to end up spending  
19      a whole bunch more money down the road to get those  
20      extra lives.

21                So that's why the remaining life is a good  
22      tool that rolls all that together and adjusts your  
23      depreciation rates, especially since you're going and  
24      doing these studies on a routine basis. You know,  
25      under the Florida requirements, you're obligated to do

1       them every five years. So you do them, and your rates  
2       are adjusted, and by the time you get finality on the  
3       lives and the property, you're coming together.

4           Q. Well, I take your point that there may be  
5       specific factors or events which cause or create or  
6       contribute to the degree of a surplus or deficiency.  
7       But is it nonetheless true that as of a given point in  
8       time when the comparison is made, the surplus or  
9       deficiency that results from a comparison of the book  
10      and theoretical reserves provides a picture of where  
11      the company stands in terms of being either behind  
12      schedule or ahead of schedule in recovering its  
13      capital costs?

14          A. It's a very vague picture. It's an  
15      extremely vague picture because of all these factors  
16      that flow into it and the reasons for those numbers to  
17      change, because one day, today you could have no  
18      deficiency, and tomorrow after you finish the study,  
19      you could have a large deficiency.

20          Q. Well, there is a requirement that the  
21      company conduct depreciation studies every four years?

22          A. Four or five, yes.

23          Q. So periodically, there would be a new  
24      comparison to see where the company is in that  
25      recovery?

1 adjustment and the rates went down here, you would be  
2 going back up like this (indicating) in a couple of  
3 years when you spent all this additional money.

4 Q. Well, when that money is spent, it will be  
5 spent for specific capital items, will it not?

6 A. Oh, sure, sure. And I'm not saying that we  
7 should include future additions, which we did not. We  
8 did not make any life cycle analysis calculations.  
9 You could do that. We've done that in some cases,  
10 where you look at the full life cycle anticipated and  
11 do a levelized number or levelized remaining life.

12 But we recognize -- and that's why the  
13 remaining life and the theoretical reserve is  
14 questionable. I don't want to say questionable, but  
15 the number changed rather dramatically. The change of  
16 our parameters influenced it. Okay? And you've got  
17 to recognize that when you look and say, well, there's  
18 variance. Why is there a variance? Because we moved  
19 the numbers. But we also recognize that when we go  
20 forward, we're going to be spending this additional  
21 money.

22 Secondly, it implies that this life plan  
23 number was always in place for the entire life, which  
24 it was not. So it's impossible that the company could  
25 have accumulated this kind of dollars in the reserve,

1           A.    I don't think so, and here's why.  Let's say  
2           next year they spend the additional money, and we do a  
3           calculation -- and this is all hypothetical.  Where  
4           would the theoretical reserve be?  We might be behind.

5           Q.    Well, in this instance, you have updated the  
6           2003 historical data to include book activity for 2004  
7           and budget for 2005; right?

8           A.    Yes.

9           Q.    So to the extent any additional investments  
10          are known or estimated, they would be included in the  
11          pro formas, would they not?

12          A.    Only for that calendar year, let's say 2006.  
13          And let's say that you took plant, and in 2006 you  
14          spent \$100 million, and it has a probable return date  
15          of 2020.  Your whole reserve scenario comparison would  
16          just totally change.

17          Q.    Your illustration to this point used the  
18          example of a production plant.

19          A.    That's where the biggest portion of the  
20          variance is.

21          Q.    Would your concern have equal force or  
22          validity in the context of transmission or  
23          distribution assets?

24          A.    Not as much.  But again, your theoretical  
25          implies that that level of depreciation, life and



1 discussed, that's a theoretical impossibility and  
2 you're not going to use it -- do you default to zero,  
3 or do you give it some individual attention and arrive  
4 at a positive value sometimes?

5 A. As a generality, in a simplistic sort of  
6 way, you tend to probably default to zero in your  
7 mind-set, but you would have to say, "Why did it go to  
8 zero?" Well, it went to zero because the gross  
9 salvage has fallen like a rock. At the best, you  
10 would say it's zero or maybe something a little  
11 greater, maybe 5 percent. You have to look at the  
12 circumstances. It's not arithmetic.

13 Q. Having in mind the process that you  
14 described where you use some judgmental process to  
15 arrive at values other than those that are produced by  
16 the calculations, do the three volumes that constitute  
17 the depreciation study enable one to replicate the  
18 result that you reached in your study?

19 A. When you say replicate, replicate by who?

20 Q. Well, by another consultant, for example.

21 A. Well, certainly another consultant doesn't  
22 have my brain cells. He should be able to follow the  
23 logic in the assumptions and come up with -- there may  
24 be some differences, I don't deny it. But I think  
25 what we've produced, and where questions have been

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1 snapshot of a piece of the property that was retired,  
2 or it's the property that was retired, but it's just a  
3 component of the total of the property.

4 So to believe that you would ever obtain  
5 anywhere near 40 percent gross salvage for this asset  
6 at the end of life is just not something I would  
7 accept, and I don't think any depreciation  
8 professional would accept that.

9 With that said, of course, this trends to  
10 negative 20, so at the very least, we would have said  
11 that would be zero, because as we talked about before,  
12 it's just not going to be negative. The average in  
13 the net salvage has been averaging 32 percent.  
14 Certainly some of that higher salvage goes back a few  
15 years, and what we're seeing here is that the recent  
16 years, the last five -- of course, we had some  
17 10 percenters here, 10, 13 -- I'm looking in the wrong  
18 column. Pardon me.

19 We've got 8 percent on average on the cost  
20 of removal, but we've been in that -- well, as low as  
21 4 percent, but we've been in that 4 to 15, 16,  
22 18 percent over a period of time there. So we took  
23 that into consideration and took into consideration  
24 the future cost of removal, and we really highly  
25 discounted the gross salvage, so we were coming in at

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1           A.    I was informed that there was little, if  
2           any, PCBs remaining in the system.

3           Q.    Okay.  Who informed you of that?

4           A.    Well, it was one of the -- we had three  
5           different individuals at the site meeting, and I don't  
6           recall which one.  It's probably in my notes.  I  
7           recall specifically discussing that, that there was --  
8           because I asked about PCBs in transformers.

9           Q.    What about the period 1985 to 1995?  Would  
10          the quantity of PCBs have been different in that time  
11          frame?

12          A.    Well, earlier on there could have been some  
13          more PCBs, but I didn't get the impression there was a  
14          lot.

15          Q.    Did you perform any specific studies to test  
16          whether the historical retirements and the  
17          corresponding cost of removal in the database were  
18          representative of what's expected in the future?

19          A.    Well, I guess the question would be what  
20          sort of analysis?

21          Q.    Well, my question to you is, did you perform  
22          any analysis, and if so, what did you do?

23          A.    Well, I guess I need to have somebody tell  
24          me that, because we did not perform any -- to say is  
25          it representative of what's going to happen in the

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1 future, the whole idea of studying the past is to get  
2 an indication of what has transpired over a period of  
3 time and what is estimated to be reasonable relative  
4 to the property. We don't have the luxury or the  
5 information that would give us any numbers relative to  
6 future cost of removal. We don't know. That's what  
7 we're trying to estimate. We don't have that  
8 information.

9 Q. Is your answer that --

10 A. No. We didn't do it.

11 Q. Okay. If you'll look at page 8-70 in what  
12 has been identified in Exhibit 2, and for the entries  
13 corresponding to the years 2001 and 2002, can you tell  
14 us what was specifically retired in those years that  
15 resulted in the lowest level of gross salvage  
16 experienced by the company during that entire time  
17 frame?

18 A. No.

19 Q. Do those values for 2001 and 2002 in context  
20 look anomalous to you?

21 A. In comparison to the other numbers,  
22 certainly they're much, much lower.

23 Q. Are they anomalous?

24 A. In that pure comparison, one would say  
25 they're anomalous. But as I was pointing out before,

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1 the expectation relative to gross salvage for any  
2 significant level of this account is highly  
3 questionable. So, yes, those numbers are very low.

4 Q. And in fact, in 2003, the data shows that  
5 gross salvage was a positive 32 percent; correct?

6 A. That's right.

7 Q. If I understand your answer correctly, you  
8 do not contend, do you, the gross salvage relationship  
9 for 2001 and 2002 to be representative for the  
10 company?

11 A. No more than I contend that the remaining  
12 years are truly representative of the entire plant.  
13 So, no, I do not.

14 Q. Turn now to page 8-73 of Exhibit 2. The  
15 five-year trend for gross salvage shows negative  
16 21.41 percent?

17 A. Yes.

18 Q. Specifically, how did that negative 21.41  
19 percent forecast on gross salvage affect the  
20 preparation of your recommendation of positive  
21 10 percent?

22 A. You're taking the positive 10 percent from  
23 Section 6?

24 Q. I'll have to confer and see what the source  
25 of that is.

00110

112

1 the same depreciation database, simply say so, but if  
2 you requested anything in addition to that, please  
3 identify the additional information.

4 A. Okay. All these studies started with the  
5 historical database that we were provided related to  
6 net salvage from the company. In all cases, we went  
7 down through -- when we did our on-site visits, we  
8 went down through all the accounts and talked to the  
9 transmission and distribution folks about anything  
10 that might be unusual. And I don't recall in general  
11 terms any significant items. The only one that comes  
12 immediately to mind is that the company has an issue  
13 with underground conductors. I don't recall other  
14 things that were of a material nature. As many  
15 companies do, they have some rather significant issues  
16 with underground cables.

17 Q. Okay. Again, from the word go, describe the  
18 steps you followed to arrive at your recommendation  
19 for this account. And I think that would begin with a  
20 review of data, if you would simply describe the  
21 sequence.

22 A. The same sort of sequence, nothing different  
23 about the sequence that we would go through.

24 Q. Well, for instance, you show the results of  
25 several calculations or analyses there. In sequence,

00111

114

1 facilities? At best you're going to get scrap value,  
2 and at worst you're going to have to pay somebody to  
3 take it.

4           So while they've generated some salvage --  
5 and this is transmission towers. Certainly it  
6 wouldn't be -- well, it could be some highway  
7 relocations, but you wouldn't anticipate a lot of  
8 highway relocations on transmission towers. Some of  
9 it could be insurance reimbursements. But again, it's  
10 a case where you've got to really discount some of  
11 this level of salvage and say it just isn't going to  
12 relate to the entire population.

13           So from that aspect, what we ended up doing  
14 was estimating 10 percent gross salvage, you know,  
15 taking into consideration that we're only talking  
16 about a portion of this property generating that  
17 salvage, and conservatively estimated like 35 percent  
18 negative net salvage, or 35 percent cost of removal,  
19 and came down to a negative 25, which is short of,  
20 certainly -- as you can very well see, if we wanted to  
21 be very aggressive, from our arithmetic analysis, we  
22 could imply, which I would support that we could imply  
23 that it's negative 65. So that's where it's a case  
24 of, I guess you would say, conservative moderation, in  
25 the sense that it wasn't a case that we went through

00112

1           A.   Well, again, as in the other account, if you  
2           just look at numbers, that would appear to be  
3           anomalous. But in the running spectrum or the running  
4           process of retirements being booked and gross salvage  
5           being accrued, the journal entries are booked, the  
6           information is assembled and audited, and I have no  
7           reason to believe that there is anything incorrect  
8           about the information, or they would be writing  
9           correction entries.

10          Q.   A more general question. If you encounter a  
11          value that you regard as anomalous or perhaps regard  
12          as an outlier, what do you do, if anything, to take  
13          that into account in your analysis?

14          A.   Well, I would look at this account, just as  
15          I would look at 1999 in the year 2000, and I would  
16          say, "That doesn't make any sense." And by the same  
17          token, I would say, "Oh, that looks like a low  
18          number." And I would go to page 8-83 and 8-84 and  
19          look what those produced overall and make my  
20          assessments from there rather than trying to pinpoint  
21          one or two items on the page, knowing that there's a  
22          whole range of data here.

23                And how much influence would that one number  
24          have? Well, it wouldn't have a whole lot of influence  
25          because it's relative to \$700,000 of retirements and



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1 10 percent gross salvage. What did I say?  
2 Forty percent cost of removal and 10 percent gross  
3 salvage, which produces negative 30.

4 Q. Looking at the gross salvage linear trend  
5 analysis, the lowest entry there is 68 percent.

6 A. That's right. Ain't going to happen.

7 Q. Explain to me how you know that.

8 A. The company takes all its wire out,  
9 conductors out. Who's going to pay them 68 cents on  
10 the dollar for the salvage, for the property? Who?  
11 At best they're going to get scrap value, which is  
12 probably going to be 3 or 4 percent, or 10. You just  
13 aren't going to -- do you think property after it has  
14 been used for 50 years is going to have any value?  
15 Who's going to buy it?

16 Q. The other entries under the linear trend  
17 analysis, do they reflect actual occurrences,  
18 historical?

19 A. Yes. Again, as I said, this is \$17 million  
20 relative to property that has 200 million.

21 Q. During the period '94 through 2003, did the  
22 company realize almost 100 percent of the investment?

23 A. Yes. That was for the most part likely -- a  
24 lot of that was probably return to stores. When you  
25 take something back to stores, you salvage it at

00114

1 current cost, which could be greater than what you  
2 paid for it.

3 Q. Okay. Will the company in the future --

4 A. They may or may not use it. As a matter of  
5 fact, they've had cases in the past where they've  
6 salvaged stuff and then gone through stores and said,  
7 we don't need this, or it's not usable, so they trash  
8 it.

9 It's not a fictitious entry. It's a true  
10 entry, but it's not cash. It's just a case that when  
11 you bring it back, you credit salvage and you debit  
12 materials and supplies. And it's only for a portion  
13 of the materials relative to a portion of the total  
14 plant investment. But when you look at this and say,  
15 okay, it's relative to like 8 percent, 9 percent of  
16 the asset group, number one, and number two, is there  
17 any rational belief that you're going to experience  
18 anything approaching this at end of life, absolutely  
19 not. I'm sure the company would be glad to sell you a  
20 whole bunch of conductors at that price. It's just  
21 not going to happen.

22 Q. Can you identify any consideration that was  
23 either unusual, atypical, or very significant that had  
24 a bearing on your analysis for this account?

25 A. No.

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1 20 percent historically, but it has been in the  
2 10 percent range in recent years. It trends up to 26.  
3 You know, giving some weight to the gross salvage,  
4 we've estimated 5 percent gross salvage, ultimately --  
5 negative 15 percent net salvage, but 20 percent -- it  
6 works out to be 20 percent cost of removal,  
7 recognizing that there will be increased costs  
8 relative to these assets in the future as this  
9 property continues to age.

10 Q. In this instance, you've forecasted the cost  
11 of removal at 26.51 percent and discounted that to 20  
12 percent for your recommendation. We've observed that  
13 in other accounts, you've applied a greater discount  
14 to the predicted cost of removal. Is there any type  
15 of calculation or analysis that would explain the  
16 difference in approach?

17 A. Not necessarily. For instance, in station  
18 transformers, we were at negative 10 -- we were at  
19 10 percent cost of removal. It's certainly somewhat  
20 higher in this account. But, no.

21 Q. Okay. Let's look at Account 364.

22 A. My favorite account.

23 Q. Did you request any information other than  
24 the overall database that we discussed with respect to  
25 other accounts?

00116

1 we've seen that higher level of cost of removal.

2 What would my assessment have been if I had  
3 looked at excluding data post '96? Well, certainly my  
4 assessment there for the cost of removal would have to  
5 be different, because a lot more history has been  
6 experienced in that category. My assessment relative  
7 to gross salvage would not have changed that much.  
8 Somebody else may have looked at that differently and  
9 maybe accepted the fact that they were receiving that  
10 kind of salvage and didn't take into consideration  
11 that it's only for a portion of the plant and that  
12 they're not going to get that kind of salvage for the  
13 entire population. That's what I see differently.

14 Q. Do you believe that the principle of  
15 gradualism should be applied to this particular  
16 account in view of the magnitude of the recommended  
17 change?

18 A. I believe this account is one where the  
19 information without analysis doesn't tell the story.  
20 I think you've got to break it down, look at the  
21 components, and assess what's rational.

22 To answer your question about gradualism,  
23 anything is possible. That isn't my recommendation.  
24 I believe wholeheartedly and seriously that this is a  
25 very honest and defensible position, given what poles

1 in general, not only in this company, but the industry  
2 in general, what the cost relative to those assets are  
3 going to be.

4 Q. I believe you said earlier, Mr. Robinson,  
5 that you did not review the 2002 study that was  
6 performed in-house.

7 A. I may have seen it, but I don't recall what  
8 may have been in it, or talked about it with somebody.

9 Q. Assume for the purpose of the question that  
10 the 2002 study was consistent with the treatment of  
11 this account in the 1997 study. So with respect to  
12 the smaller intervening time period, would that alter  
13 your answer at all?

14 A. Well, first of all, when I set my  
15 depreciation rates, I put this comparison together to  
16 show, for publication purposes, what the variances  
17 are. But as I said earlier on, what was in the early  
18 columns relative to the present rates didn't drive the  
19 results of my study. It's looking at this and the  
20 interpretation of this information is what drove my  
21 recommendation.

22 Q. So nothing in either the 1997 study or the  
23 2002 study would lead you to want to temper your  
24 recommendation with respect to the magnitude of the  
25 swing?

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1           A.   Not unless there was some specific  
2           information in there that said this is the reason for  
3           the salvage, and this is going to continue, and this  
4           is going to be relative to all the assets, which would  
5           raise more questions in my mind about that kind of  
6           statement than by looking at this data.

7           Q.   Did you consider in fashioning this  
8           recommendation information available in the industry  
9           as opposed to the specifics of this study?

10          A.   I relied pretty heavily on the company's  
11          data here.  Certainly the Carolina study was something  
12          I considered because it's a sister company.

13          Q.   Outside the Progress Energy entities, what's  
14          the most negative net salvage value proposed for this  
15          account?

16          A.   I would have to look.  I don't know.

17          Q.   Do you know whether you've ever recommended  
18          something as large as you have recommended for the  
19          Progress Energy entities?

20          A.   Well, I know specifically for a telephone  
21          company, but not specifically an electric company,  
22          because a telephone company has poles too.  And I know  
23          I've seen negative salvage with telephone companies  
24          approach 200 percent negative.  Electric companies, I  
25          can't recall.  You know, for some reason the telephone

00119

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1 company one just sticks in my mind, but I don't know.

2 Q. You used a 10 percent value for gross  
3 salvage for Account 364; is that correct?

4 A. Yes.

5 Q. The trend analysis indicated 387 percent;  
6 correct?

7 A. That's driven off that 618 percent in 2001.  
8 That's driving that number, so that number is totally  
9 bogus.

10 Q. With respect to cost of removal, the  
11 calculation that inflates cost of removal is  
12 102 percent; is that correct?

13 A. That's correct.

14 Q. Now, with respect to other accounts, you  
15 chose to discount the predicted cost of removal, but  
16 here you've used 100 percent; is that right?

17 A. Well, as I explained in one of my earlier  
18 answers, this was driven off of a 57 percent cost of  
19 removal, which is the product of a whole range of  
20 years, when we know in fact that the last 10 years has  
21 been well over 100 percent. So, again, it's not just  
22 taking a group of numbers and adding them up and  
23 getting an answer. You look at what the average is,  
24 you look at what that number is, and then you look at  
25 the data and say, "Wait a second. For the last decade

00120

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1 we've been seeing this kind of experience, so isn't it  
2 rational to believe that in the future that's going to  
3 continue?"

4 MR. MCGLOTHLIN: If you're agreeable, let's  
5 take about a five-minute break.

6 (Short recess.)

7 BY MR. MCGLOTHLIN:

8 Q. Mr. Robinson, looking at 8-109 in this  
9 composite exhibit, in response to a earlier question,  
10 you referred to the gross salvage for 2001 of 618.51  
11 percent, and I think you said this number was  
12 completely bogus, and for that reason you discounted  
13 its impact on indicated gross salvage; is that  
14 correct?

15 A. Well, I said that number is just so removed  
16 from reality, and I would agree that 1,000 percent  
17 doesn't make any sense, but we look at the bigger  
18 picture.

19 Q. Well, with respect to the gross salvage, I  
20 believe you discounted the gross salvage that would be  
21 indicated by the historical data and used a different  
22 value, did you not?

23 A. Yes, as we have on many accounts.

24 Q. Why did you not similarly discount the  
25 impact that the 1,090 percent would have on cost of

00121



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1 removal?

2 A. Well, I looked at the range of the data for  
3 a range of years, and when I looked at 1992 forward,  
4 even if you take that out, you're still talking  
5 relatively high numbers.

6 Q. Did you perform any specific calculations of  
7 the range of years that would have deleted the 2001  
8 value to see if it was still 100 percent?

9 A. I don't recall specifically doing that, but  
10 the cost of removal estimate, even looking at the  
11 forecast, is still in excess of that, over 100  
12 percent, and that's relative to an overall average  
13 going back. But I don't remember doing that specific  
14 calculation, no. If I would have done it, I would  
15 have done it probably mentally.

16 Q. Probably mentally, did you say?

17 A. Mentally.

18 Q. Okay. But you agree that the 1,090 percent  
19 is as suspect as is the corresponding value for gross  
20 salvage in 2001; correct?

21 A. Yes. Certainly the cost of removal  
22 amount -- the cost of removal amount really is not  
23 suspect in that regard, because that is monies that  
24 the company would have spent. Those are hard dollars  
25 that the company spent. The question becomes, why is

00122

1 Q. But you've recommended using 20 percent.

2 A. We just felt that that certainly is being  
3 influenced, as you pointed out, by those high numbers  
4 in several of those years. So someone would have seen  
5 that and recognized that and gave that consideration  
6 when they estimated the cost of removal, recognizing  
7 that it's more of a cost to disconnect than actually  
8 in some cases physically removing the plant.

9 Q. Because the plant is left in place after  
10 disconnection?

11 A. Some of it is abandoned in place.

12 Q. Turn, if you will, to Account 268 in this  
13 composite exhibit. 368 is distribution line  
14 transformers. First question, did you review any data  
15 other than the net salvage database?

16 A. No.

17 Q. Is this an account for which you posed  
18 questions about specific transactions?

19 A. No. There's nothing here that really --  
20 granted, again, 2003 and 2002 is relatively low, but,  
21 no.

22 Q. I'll ask you the same series of questions.  
23 When line transformers are retired or replaced, do you  
24 know the specific costs that are assigned to the  
25 installation of the replacement plant as opposed to

1           A.   Well, we gave away the store. Gross salvage  
2           was 96 percent, which is attributable to \$5 million of  
3           retirement, of which we have \$75 million in service.

4                   Our cost of removal averaged over 200  
5           percent, trended to approximately -- more than 400  
6           percent. And I would suspect that if I look in the  
7           report that we probably said that we just were very  
8           conservative in this account, and we only estimated  
9           85 percent net salvage, even though the -- I mean  
10          85 percent cost of removal, even though the cost of  
11          removal is obviously significantly higher than that.

12                   And certainly for the salvage, it's another  
13          one of those cases where when you take out overhead  
14          services, you just aren't going to get a lot of  
15          salvage for those conductors. It's just mostly  
16          triplex. It's aluminum, twisted triplex that you  
17          almost have to pay somebody to haul away.

18                   I know we talked about this account and what  
19          may have generated the high levels of gross salvage  
20          and were unable to really get any definitive answer.  
21          But again, it's only relative to a modest level of the  
22          overall total account. But you just aren't going to  
23          generate that kind of salvage. And it's not a case  
24          where you would get third-party payments. It's not a  
25          case where you would get highway relocations. The

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1 records. It follows prescribed procedures. No, I did  
2 not.

3 Q. Do you know what percentage of historical  
4 retirements for this account are associated with  
5 abandonment in place?

6 A. I would say quite a bit. I doubt the  
7 customers want you to dig up their yard when you  
8 disconnect their service.

9 Q. But is this something that you asked the  
10 company to provide, or are you simply assuming that's  
11 the case?

12 A. I'm reasonably making that assumption. I  
13 know from my own case that if I had a service  
14 disconnect, the last thing I would want them to do is  
15 trench my lawn.

16 Q. Looking at 8-133, I think you've touched on  
17 this. Can you explain the large negative cost of  
18 removal in 1998?

19 A. No, not specifically.

20 Q. And specifically how did you arrive at a  
21 gross salvage or recommended gross salvage of  
22 30 percent for this account?

23 A. Well, I think you got me. I don't think it  
24 should have been that high. We actually -- in many of  
25 the accounts, most of these accounts, we actually

00125

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1 certainly as much a driver for providing that  
2 information as anything, because our depreciation  
3 rate, our total top line depreciation rate is really  
4 driven off the total net salvage.

5 MR. McGLOTHLIN: Let me have a moment in  
6 place.

7 (Pause in the proceedings.)

8 BY MR. McGLOTHLIN:

9 Q. My mistake. We do have one more. Sorry to  
10 have misled you. 373, street lighting. Did you  
11 review any data other than the net salvage database?

12 A. Not specifically, no.

13 Q. Is this an account for which you had  
14 transaction-specific questions for the company?

15 A. Yes. It's pretty obvious I would have asked  
16 about 1997. Again, I don't have any information on  
17 that. That's apparently some sort of correction.

18 Q. Okay. As I understand it, you believe you  
19 would have asked for some information to explain that,  
20 and you did not get an explanation from the company  
21 that would shed light on the situation?

22 A. Right. And it doesn't make sense. But by  
23 the same token, as you see, you've got a negative  
24 6 million in 1997 and a positive 8 million in 1998.  
25 It seems like they're in the reverse order you would

00126

Table 1F - FERC ACCOUNT-FUTURE (Pro Forma)

## Progress Energy Florida, Inc

Summary of Pro Forma Original Cost of Utility Plant in Service as of December 31, 2005  
and Related Annual Depreciation Expense Under Present and Proposed Rates  
(By FERC Account)

Account No.	Description	Original Cost 12/31/05	Present Rates		P	Proposed Rates								Net Change Depr. Exp.
			Rate %	Annual Accrual		Rate %	Annual Accrual	Rate %	Annual Accrual	Rate %	Annual Accrual	Rate %	Annual Accrual	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	
<b>Distribution Plant</b>														
360.10	Land Rights	557,015	2.20% (1)	12,254	1.19%	6,628	0.00%	0	0.00%	0	1.19%	6,628	(5,626)	
361.00	Structures and Improvements	22,197,122	2.10% (1)	466,117	1.77%	392,889	-0.09%	(19,977)	0.18%	39,955	1.86%	412,886	(53,251)	
362.00	Station Equipment	370,197,611	2.30% (1)	8,514,175	1.99%	7,366,932	0.01%	37,020	0.57%	2,110,126	2.57%	9,514,079	999,804	
364.00	Poles, Towers and Fixtures	476,919,626	4.20% (1)	20,030,624	3.71%	17,693,718	-0.42%	(2,003,062)	5.00%	23,846,981	8.29%	39,536,637	19,506,013	
365.00	Overhead Conductors and Devices	490,725,359	4.70% (1)	23,064,092	2.70%	13,249,585	-0.44%	(2,169,192)	1.08%	5,299,834	3.34%	16,390,227	(6,673,865)	
366.00	Underground Conduit	172,047,364	2.20% (1)	3,784,973	1.78%	3,062,443	-0.52%	(894,646)	0.52%	894,646	1.78%	3,062,443	(722,530)	
367.00	Underground Conductors and Device	449,946,372	2.90% (1)	13,048,683	2.98%	13,408,461	-0.15%	(674,923)	0.73%	3,284,623	3.66%	16,018,162	2,969,479	
368.00	Line Transformers	418,313,232	4.90% (1)	20,496,930	3.54%	14,808,288	-0.35%	(1,505,928)	0.62%	2,593,542	3.80%	15,895,903	(4,601,027)	
369.10	Services-Overhead	78,975,538	4.40% (1)	3,474,845	2.68%	2,116,544	-0.32%	(252,722)	3.09%	2,440,344	5.45%	4,304,167	829,322	
369.20	Services-Underground	376,216,307	3.30% (1)	12,414,762	2.76%	10,383,570	-0.79%	(2,972,109)	1.51%	5,680,866	3.48%	13,092,327	677,565	
370.00	Meters	126,354,464	3.60% (1)	4,601,470	4.30%	5,433,242	-0.20%	(252,709)	0.47%	593,866	4.67%	5,774,399	972,929	
370.10	Meters-Energy Conservation	0	20.00% (1)	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0	
371.00	Installation on Customers Premises	3,164,154	6.00% (1)	189,849	3.93%	124,351	0.00%	0	0.00%	0	3.93%	124,351	(65,498)	
373.00	Street Lighting and Signal Systems	266,817,319	8.00% (1)	21,345,386	4.58%	12,248,916	0.00%	0	1.26%	3,361,898	5.85%	15,608,813	(5,736,573)	
<b>TOTAL Distribution Plant</b>		<b>3,252,433,484</b>	<b>4.05%</b>	<b>131,644,160</b>	<b>3.08%</b>	<b>100,293,566</b>	<b>-0.33%</b>	<b>(10,698,248)</b>	<b>1.54%</b>	<b>50,145,681</b>	<b>4.30%</b>	<b>139,741,002</b>	<b>8,096,842</b>	
<b>General Plant</b>														
389.00	Land Rights	0	0.00% (1)	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0	
390.00	Structures and Improvements	95,904,704	3.70% (1)	3,548,474	3.60%	3,452,668	0.00%	0	-0.12%	(115,086)	3.48%	3,337,484	(210,990)	
391.00	Office Furniture and Equipment	16,693,902	14.30% (1)	2,387,229	14.30%	2,387,229	0.00%	N/A	0.00%	N/A	14.30%	2,387,229	0	
<b>Transportation Equipment</b>														
392.10	Passenger Cars	1,002,403	8.70% (1)	87,209	8.70%	87,209	0.00%	N/A	0.00%	N/A	8.70%	87,209	0	
392.20	Light Trucks	18,162,637	8.70% (1)	1,580,149	8.70%	1,580,149	0.00%	N/A	0.00%	N/A	8.70%	1,580,149	0	
392.30	Heavy Trucks	14,500,188	4.80% (1)	696,009	4.80%	696,009	0.00%	N/A	0.00%	N/A	4.80%	696,009	0	
392.40	Special Trucks	83,334,863	5.00% (1)	4,166,776	5.00%	4,166,776	0.00%	N/A	0.00%	N/A	5.00%	4,166,776	0	
392.50	Trailers	7,678,883	1.70% (1)	130,544	1.70%	130,544	0.00%	N/A	0.00%	N/A	1.70%	130,544	0	
<b>Total Account 392</b>		<b>124,678,973</b>	<b>5.34%</b>	<b>6,660,687</b>	<b>5.34%</b>	<b>6,660,687</b>	<b>0.00%</b>	<b>0.00</b>	<b>0.00%</b>	<b>0.00</b>	<b>5.34%</b>	<b>6,660,687</b>	<b>0.00</b>	
393.00	Stores Equipment	3,106,760	14.30% (1)	444,265	14.30%	444,265	0.00%	N/A	0.00%	N/A	14.30%	444,265	0	
394.00	Tools, Shop and Garage Equipment	11,255,674	14.30% (1)	1,609,562	14.30%	1,609,562	0.00%	N/A	0.00%	N/A	14.30%	1,609,562	0	
395.00	Laboratory Equipment	3,632,223	14.30% (1)	519,408	14.30%	519,408	0.00%	N/A	0.00%	N/A	14.30%	519,408	0	
396.00	Power Operated Equipment	2,729,465	5.81% (1)	158,445	5.81%	158,445	0.00%	N/A	0.00%	N/A	5.81%	158,445	0	
397.00	Communication Equipment	44,692,787	14.30% (1)	6,391,069	14.30%	6,391,069	0.00%	N/A	0.00%	N/A	14.30%	6,391,069	0	
398.00	Miscellaneous Equipment	3,896,886	14.30% (1)	557,255	14.30%	557,255	0.00%	N/A	0.00%	N/A	14.30%	557,255	0	
<b>TOTAL General Plant</b>		<b>306,591,363</b>	<b>7.27%</b>	<b>22,276,394</b>	<b>7.23%</b>	<b>22,180,489</b>	<b>0.00%</b>	<b>0</b>	<b>-0.04%</b>	<b>(115,086)</b>	<b>7.20%</b>	<b>22,065,404</b>	<b>(210,990)</b>	
<b>TOTAL Depreciable Plant</b>		<b>8,671,880,704</b>	<b>4.08%</b>	<b>353,413,317</b>	<b>3.01%</b>	<b>260,788,863</b>	<b>-0.15%</b>	<b>(13,267,701)</b>	<b>0.69%</b>	<b>59,730,425</b>	<b>3.54%</b>	<b>307,251,684</b>	<b>(46,161,633)</b>	

Table 5F-FUTURE (Pro Forma)

## Progress Energy Florida, Inc

Summary of Original Cost of Utility Plant In Service as of December 31, 2005  
And Calculation of Theoretical Depreciation Reserve Based Upon Estimated Service Life Parameters  
And Future Net Salvage Parameters Plus Allocation of Florida PUC Retail Depr Reserve Adjustment

And Future Net Salvage Parameters Plus Allocation of Florida PUC Retail Depr Reserve Adjustment								12/31/2005	12/31/2005		Distribution of Retail Depr Reserve Adj			
Account		Original Cost	A.S.L./		Theorectial Depr	Book Depr	Reserve Variance	Book Reserve	Book Reserve	Allocation of	To Depreciation Rate Components			
No.	Description	Per Books	Survivor	Net Salv	Reserve	Reserve	Book Over	(Under)	Theoretical	Theoretical	Retail Reserve	Plant	Gross	Cost of
(a)	(b)	12/31/05	Curve	%	12/31/05	12/31/05	Theoretical	Theoretical	Depr Reserve	Depr Reserve	\$250,000,000	Only	Salvage	Removal
(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
325.00	Misc. Power Plant Equipment													
	Crystal River #3	34,390,142	14-L2	(1)	-10.0%	18,342,963	25,446,138	7,103,175		7,103,175	1,847,628	1,819,989	0	27,639
325.10	Misc. Power Plant Equipment													
	Tallahassee	237,806	14-L2	(1)	-10.0%	106,567	127,306	20,739		20,739	5,395	5,178	0	216
	TOTAL Account 325	34,627,948				18,449,530	25,573,444	7,123,914			1,853,023	1,825,167	0	27,856
	TOTAL Nuclear Production Plant	798,548,506				341,010,551	567,236,776	226,226,225			58,851,090	50,993,263	494,247	7,363,580
	Other Production Plant													
341.00	Structures and Improvements													
2500	Avon Park Peaking	428,977	50-L2	(1)	-0.6%	283,492	445,118	161,626		161,626	42,041	29,400	0	12,641
2501	Bartow Peaking	1,074,368	50-L2	(1)	-0.6%	784,977	1,132,360	347,383		347,383	90,359	104,137	0	-13,779
2503	Bayboro Peaking	1,439,136	50-L2	(1)	-0.6%	959,605	1,015,389	55,784	55,784			0	0	0
2504	Debary Peaking	5,011,073	50-L2	(1)	-0.6%	2,768,070	3,430,140	662,070		662,070	172,213	180,067	0	-7,854
2505	Debary Peaking (New)	4,755,527	50-L2	(1)	-0.6%	2,039,709	1,988,708	-51,001		-51,001	-13,266	-12,608	0	-660
2506	Higgins Peaking	726,197	50-L2	(1)	-0.6%	495,603	794,127	298,524		298,524	77,650	63,650	0	14,000
2507	Hines Energy Complex	42,520,599	50-L2	(1)	-0.6%	9,199,417	26,172,699	16,973,282		16,973,282	4,414,971	1,405,541	3,146,745	-137,315
2520	Hines Energy Complex Unit # 2	12,578,623	50-L2	(1)	-0.6%	1,098,497	935,635	-162,862		-162,862	-42,362	-41,293	0	-1,070
2508	Intercession City Peak # 11	1,275,432	50-L2	(1)	-0.6%	410,092	456,914	46,822		46,822	12,179	11,451	0	728
2509	Intercession City Peak P1-P6	3,722,455	50-L2	(1)	-0.6%	1,918,820	2,530,164	611,544		611,544	159,070	148,973	0	10,097
2510	Intercession City Peak P12-P14	674,267	50-L2	(1)	-0.6%	141,944	-803,896	-945,840	-945,840			0	0	0
2511	Intercession City Peak P7-P10	9,678,643	50-L2	(1)	-0.6%	3,880,769	3,666,958	-213,811		-213,811	-55,615	-53,542	0	-2,073
	Port St Joe Peak	0	50-L2	(1)	-0.6%	0	0	0		0	0	0	0	0
2512	Rio Pinar Peaking	88,646	50-L2	(1)	-0.6%	49,895	85,606	35,711		35,711	9,289	8,128	0	1,161
2513	Suwannee River Peaking	1,534,742	50-L2	(1)	-0.6%	956,735	1,370,102	413,367		413,367	107,522	104,541	0	2,981
2514	Tiger Bay Cogen	10,649,592	50-L2	(1)	-0.6%	3,272,622	5,819,221	2,546,599		2,546,599	662,404	315,895	398,979	-52,470
2515	Turner Peaking	1,340,880	50-L2	(1)	-0.6%	703,679	943,212	239,533		239,533	62,306	61,540	0	766
2516	University of Fla Cogen	6,579,500	50-L2	(1)	-0.6%	3,310,257	3,194,043	-116,214		-116,214	-30,229	-27,682	0	-2,547
2521	Hines Energy Complex Unit # 3	13,840,303	50-L2	(1)	-0.6%	242,667	63,224	-179,443	-179,443			0	0	0
	TOTAL Account 341	117,919,000				32,516,650	53,239,725	20,723,075			5,668,531	2,298,199	3,545,724	-175,392
342.00	Fuel Holders, Production and Accessories													
2500	Avon Park Peaking	473,195	34-R0.5	(1)	-6.3%	249,743	387,193	137,450		137,450	35,752	32,331	0	3,421
2501	Bartow Peaking	1,399,581	34-R0.5	(1)	-6.3%	832,691	1,155,840	323,149		323,149	84,055	78,084	0	5,971
2503	Bayboro Peaking	841,570	34-R0.5	(1)	-6.3%	526,771	734,670	205,899		205,899	53,557	48,903	0	4,654
2504	Debary Peaking	6,475,179	34-R0.5	(1)	-6.3%	4,005,357	5,593,856	1,588,499		1,588,499	413,189	379,161	0	33,998
2505	Debary Peaking (New)	6,989,895	34-R0.5	(1)	-6.3%	2,765,995	2,962,226	196,231		196,231	51,042	46,296	0	4,746
2506	Higgins Peaking	1,513,020	34-R0.5	(1)	-6.3%	619,501	827,412	207,911	207,911			0	0	0
2507	Hines Energy Complex	14,831,929	34-R0.5	(1)	-6.3%	2,996,190	2,164,332	-831,858	-831,858			0	0	0
2508	Intercession City Peak # 11	1,413,808	34-R0.5	(1)	-6.3%	449,026	502,353	53,327		53,327	13,871	12,749	0	1,122
2509	Intercession City Peak P1-P6	1,694,917	34-R0.5	(1)	-6.3%	933,998	1,252,279	318,283		318,283	82,790	75,446	0	7,344
2510	Intercession City Peak P12-P14	12,419,899	34-R0.5	(1)	-6.3%	2,442,074	1,503,725	-938,349	-938,349			0	0	0
2511	Intercession City Peak P7-P10	7,709,950	34-R0.5	(1)	-6.3%	2,919,008	2,871,372	-47,636		-47,636	-12,391	-11,221	0	-1,170

transmission sub-stations within the Company's operating system is approximately 90 facilities. *Much of the activity in the account has been occurring at higher levels during the past two (2) to three (3) decades.*

Likewise, retirement activity has been significantly higher since the early 1970's than during earlier periods. Notwithstanding the higher retirement levels, the average service life indications have been in the range of fifty (50) plus years. The average service life underlying the current depreciation rate is forty (40) years while a review of industry life statistics identifies that the mean average life is slightly less than fifty (50) years. Giving consideration to both the prior experience, industry data and anticipated factors, along with the experience of other property categories, an Iowa 52-R1 life and curve is estimated for this property group. *Application of the recommended service life parameters to the Company's current investment produces an average remaining life 39.8 years.*

Retirements of \$51,942,301, which occurred during the period 1975-2003, were analyzed in conjunction with related net salvage experience to identify the level of anticipated future net salvage for this property group. While the overall average net salvage during the period 1975-2003 for this property group has been considerably positive, the annual level of net salvage has varied widely over the years with positive salvage declining and even becoming negative during more recent years. Furthermore, the future net salvage forecast analysis is approximately negative fifty (50) percent net salvage. Accordingly, based upon the recent experience and anticipated increased cost of removal in future years, *future net salvage is currently estimated at zero (0) percent.* The proposed life and salvage parameters produce an annual depreciation rate of 1.73 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting



The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 26.0 years and a proposed pro forma annual depreciation rate of 1.72 percent.

Account 355 - Poles and Fixtures

The current investment in this account totals \$242,606,458, has achieved a current average age of 12.8 years, and is being depreciated utilizing an annual depreciation rate of 4.0 percent. The property contained in this asset group is generally utilized for the Company's lower voltage transmission lines. The Company has various 69 and 115KV transmission lines which utilize wood poles and fixtures.

An analysis of the vintage retirements totaling \$27,196,594, which occurred at an average age of 18.0 years, were analyzed via the Retirement Rate Method. Giving consideration to the overall as well as other experience bands, an Iowa 40-R1.5 life and curve is recommended for this property group. Application of the recommended service life parameters to the Company's current surviving investment produces an average remaining life of 30.3 years.

Retirements totaling approximately \$22,080,935 during the period 1975-2003 were analyzed together with the net salvage to identify the Company's past experience. This analysis identifies that over the history of the property group, the Company has experienced a wide range of net salvage from in excess of positive 150 percent net salvage to in excess of negative 125 percent net salvage. The high levels of positive net salvage are attributed to the return of portions of plant to the storeroom. By comparison, various recent years experienced high levels of negative net salvage—a circumstance that is anticipated to further increase in future years as the property continues to age. While historical net salvage averaged approximately five (5) percent, the forecasted salvage analysis resulted

in estimated future net salvage of in excess of negative sixty-five (65) percent. Based upon the historical analysis results and consideration of the forecasted analysis, future net salvage is estimated at negative twenty-five (25) percent and when combined with the recommended service life parameters produces an average remaining life depreciation rate of 2.54 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 30.8 years and a proposed pro forma annual depreciation rate of 2.73 percent.

Account 356 - Overhead Conductors and Devices

The current surviving investment in this account totals \$200,202,294. The current depreciation rate for the property account is 3.30 percent, while the current average age of the surviving property group is 18.4 years. During the most recent decade, growth has moderated considerably to generally less than five (5) percent per year.

Retirements from the property group totaling \$22,415,295 and occurring at an average age of 17.1 years were analyzed via the Retirement Rate Method for the overall as well as various interim bands. Giving consideration to the Company's overall experience and recent data, an Iowa 48-R2 life and curve is estimated for this property group. Industry data identifies a mean average life of forty-two (42) years is being used for this property group. Application of the estimated service life parameters to the current surviving investment produces an average remaining life of 33.0 years.

A review of the Company's net salvage data for the period 1975-2003 identifies that the Company has experienced a wide range of net salvage for this property group ranging from positive salvage in excess of 250 percent to negative fifty (50) percent and averaged thirty-five (35) percent net salvage. Much of the experienced positive salvage is attributable

to reused material transferred to a new pole line and/or returned to stores as opposed to end of life gross salvage. Various recent years experienced high levels of negative net salvage—a circumstance that is anticipated in future years as the property continues to age. The forecast analysis on the historical net salvage experience reinforces this expectation given that the analysis results averaged in excess of negative fifty-seven (57) percent net salvage. Based upon the recognition of the basis of the historical experience and anticipated future net salvage, future net salvage is currently estimated at negative thirty (30) percent. Utilization of the estimated net salvage factor together with the projected average remaining life produces an annual depreciation rate of 2.10 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 33.1 years and a proposed pro forma annual depreciation rate of 2.26 percent.

Account 357 - Underground Conduit

The surviving investment in this account totals \$6,853,092 has achieved a current average age of 40.0 years, and is being depreciated using an annual depreciation rate of 1.80 percent.

Historical retirements have totaled only \$746,766 to date. Based upon the general content of the account, and available historical data, an average service life characteristic of an Iowa 55-R2.5 life and curve is recommended. The resulting average remaining life is 21.8 years.

Likewise, only limited quantities of net salvage have been received in prior years, while none is anticipated in the future. Accordingly, future net salvage is estimated at zero (0) percent. The resulting annual depreciation rate for this property group is 1.09 percent.

Account 362 - Station Equipment

The Company's current investment in this account totals \$342,011,685, has achieved a current average age of 17.0 years, and is presently depreciated utilizing an annual depreciation rate of 2.30 percent. This account contains the Company's investment relative to station transformers utilized to regulate voltages between higher and lower voltage lines. Currently the Company has approximately 275 distribution sub-stations throughout its service territory. Additional plant investments have continued over the years in this property account with earlier periods of growth generally occurring in the range of five (5) to twenty (20) percent and higher, while the growth in the most recent decade has generally been much less.

An analysis of the Company's plant investment and related vintaged retirements totaling \$50,333,276 was completed via the Retirement Rate Method are identified that the retirements have occurred at an average age of 15.3 years. An analysis of the Company's historical service life data produces an average service life of approximately fifty (50) years. The average service life underlying the current annual depreciation rate is thirty-six (36) years. Industry lives range from ten (10) to fifty-three (53) years and average thirty-seven (37) years. The recent decline in activity has impacted the life indications. As the property continues to age, retirements can be anticipated to accelerate and the life indication to decline. An average service life of forty-five (45) years, which is more consistent with the industry, is proposed for this property group. Accordingly, giving consideration to the overall and various interim bands and industry data, an estimated useful life characteristic of an Iowa 45-R1 life and curve is recommended for this account. Application of the recommended service life parameters to the Company's current investment produces an average remaining life of 33.5 years.

A review of the Company's historical salvage data for the years 1975-2003 identifies that the level of the Company's experienced net salvage has historically averaged approximately twenty-five (25) percent. However, the historically experienced net salvage

has principally occurred as a result of the relocation and reuse of existing transformers and is not generally the product of final salvage generated from the disposal of property at the final end of life. Furthermore, positive net salvage has been declining during recent years and has turned negative. The forecast of the historical net salvage experience indicates future net salvage of negative thirty (30) percent.

Giving consideration to the recent experience and anticipated higher future cost of removal, future net salvage is estimated at negative fifteen (15) percent. The resulting recommended annual depreciation rate is 2.55 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 33.3 years and a proposed pro forma annual depreciation rate of 2.57 percent.

#### Account 364 - Poles, Towers, and Fixtures

The current investment in this account totals \$401,876,047, has achieved a current average age of 11.9 years, and is currently being depreciated utilizing an annual depreciation rate of 4.20 percent. An analysis of the Company's distribution poles account identifies that the account's gross additions have routinely occurred in the range of five (5) to fifteen (15) percent per year during prior decades and at somewhat lower levels during the most recent decade.

Retirement from this account totaling \$69,374,471 were analyzed via the Retirement Rate Method, which produced a service life parameter of an Iowa 28-L4 life and curve. Application of the recommended Iowa 28-L4 life and curve to the current vintage investment produces an average remaining life of 16.9 years.

Retirements totaling in excess of \$50 million, which occurred during the period 1975-2003, were studied together with the Company's experienced historical net salvage for

retirement of poles. This analysis identifies that the level of negative net salvage has been escalating in more recent years with several recent three (3) year rolling bands experiencing net salvage ranging upwards far in excess of negative one-hundred (100) percent net salvage. Based upon the Company's experience and the experience of the Company's affiliate, future net salvage is estimated at negative ninety (90) percent and when utilized together with the Company's investment and recommended average service life characteristics produces an annual depreciation rate of 8.43 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 17.4 years and a proposed pro forma annual depreciation rate of 8.29 percent.

Account 365 - Overhead Conductors and Devices

This account's current investment totals \$433,345,157 and includes the various conductors and appurtenant equipment utilized to distribute power throughout the Company's distribution system. The current annual depreciation rate is 4.70 percent for the property, which has achieved a current average age of 12.8 years. These facilities generally operate within the typical distribution voltages. Gross additions to this property group have generally been ranging between five (5) and fifteen (15) percent per year during earlier decades and at far lower levels in the most recent decade.

Notwithstanding that gross addition levels have moderated, retirements have continued at levels of the past. An analysis of retirements totaling \$63,008,305 was completed utilizing the Retirement Rate Method. Retirements occurred at an average age of 15.1 years and produced a life indication of thirty-three (33) years. Based upon the historical data analysis, general industry data, and future expectations, an Iowa 33-R2 life and curve is estimated for this property group. Applying the recommended service

parameters to the Company's current surviving investment produces an average remaining life of 22.6 years.

The Company's salvage data was analyzed for the period 1975-2003, which included retirements totaling in excess of \$50 million together with the related net salvage for each of the years. During the study period, the Company has experienced a range of net salvage, which has averaged approximately four (4) percent. Conversely, the forecast analysis of this historical net salvage indicated future net salvage in excess of negative 230 percent net salvage. Three year rolling band analysis of the historical salvage have ranged from ninety (90) percent plus positive to three-hundred (300) plus percent negative net salvage. Based upon the Company's overall experience and consideration of the range of three (3) year rolling band analysis, future net salvage is estimated at negative twenty-five (25) percent and when combined with the estimated useful service life and property investment produces an annual depreciation rate of 3.16 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 22.7 years and a proposed pro forma annual depreciation rate of 3.34 percent.

Account 366 - Underground Conduit

The current investment in this account totals \$144,705,244. The property group investment has achieved a current average age of 10.3 years and is currently being depreciated utilizing an annual depreciation rate of 2.20 percent. The investments in this account category have routinely varied between five (5) and twenty (20) plus percent growth within the overall range of installation years. Retirements from the property group totaling \$3,187,582 and occurring at an average age of 17.2 years were analyzed via the Retirement Rate Method. Based upon this analysis an Iowa 55-R3 life and curve is



recommended. Application of the proposed service life parameters to the Company's current investment produces an average remaining life of 45.4 years.

While the Company has historically experienced high levels of gross salvage for this property group, it has experienced equally high levels of cost of removal. Accordingly, the Company has experienced average net salvage of approximately negative two (2) percent for this property group. Little or no salvage is expected to be achieved in conjunction with future retirements. Based upon the experience and future expectations, future net salvage is estimated at zero (0) percent and the resulting average remaining life depreciation rate is 1.74 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 45.3 years and a proposed pro forma annual depreciation rate of 1.78 percent.

Account 367 - Underground Conductors and Devices

The current investment in this account totals \$403,499,688, is currently depreciated utilizing an annual depreciation rate of 2.90 percent, and has achieved a current average age of 9.6 years. High levels of gross additions have occurred throughout the history of this property group. The company has been experiencing significantly increasing levels of retirements from this property class. Such retirements and replacements are anticipated to accelerate in subsequent years due to a current backlog of underground cable that requires replacement.

An analysis of the company's historical retirements was completed utilizing the Retirement Rate Method and identified that the retirements have been occurring at an average age of 14.9 years. The analysis of the historical data produced service life indications in the range of forty (40) years. However, in giving consideration to the current



backlog of retirements it is anticipated that a significant level of older vintage property will be retired as the backlog of retirements are processed. Accordingly, when considering the property survivors through thirty (30) years of age, the property group is presently experiencing an average service life representative of an Iowa 34-R3 life and curve. Therefore, giving consideration to the historical experience, the age of the property, and the anticipated impact of the pending retirement backlog, an Iowa 34-R3 life and curve is currently recommended for the property group. Applying the estimated service life characteristics to the Company's current investment produces an average remaining life of 25.2 years.

Historically, the Company has experienced approximately negative eight (8) percent net salvage which forecasted to in excess of negative 290 percent net salvage. Based upon the Company's experience and expectations, future net salvage is estimated at negative fifteen (15) percent net salvage. The resulting proposed average remaining life annual depreciation rate is 3.52 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 24.5 years and a proposed pro forma annual depreciation rate of 3.56 percent.

#### Account 368 - Line Transformers

The investment in this account totals \$388,836,185. The current depreciation rate is 4.90 percent and the current average age of the property is 12.6 years. The company currently has approximately 357,000 line transformers in service. The company's growth within this property account is generally reflective of the company's overall customer growth. This property group has experienced growth rates in the range of five (5) percent to ten (10) percent and higher over a number of decades.

Likewise, the company's level of retirements has continued along with continual upgrades of its property within this group. Retirements totaling \$119,566,110 during the life of the property were analyzed via the Retirement Rate Method for the overall as well as various interim periods. The analysis identifies that the property has experienced a life of twenty-six (26) years which is the basis for the estimated Iowa 26-R2.5 life and curve. Applying the proposed service life parameters to the current surviving investment produces an average remaining life of 15.7 years.

Historical net salvage experience has routinely been negative over the years, averaging approximately negative seven (7) percent and forecasting to negative twenty-nine (29) plus percent. Based upon the Company's net salvage activity, and future expectations future net salvage is estimated at negative ten (10) percent. Utilizing the negative ten (10) percent net salvage together with the estimated service life parameters for this property group produces an annual remaining life depreciation rate of 3.79 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 15.3 years and a proposed pro forma annual depreciation rate of 3.80 percent.

Account 369.10 - Services - Overhead

The current investment for this account totals \$74,037,786. The current property has achieved an average age of 18.3 years and is presently being depreciated based upon an annual depreciation rate of 4.40 percent. *The additions to the overhead services account had grown at very high rates during earlier years but have moderated to less than two (2) percent during recent years.*

The company's historical experience was analyzed via the Retirement Rate Method utilizing the historical data for the overall as well as various interim periods. The analysis of

the historical retirements totaling \$10,388,021 indicate that the retirements have been occurring at an average age of 19.5 years while the property group has been experiencing an average service life representative of an Iowa 36-R3 life and curve. Application of the estimated service life parameters to the company's current surviving investment produces an average remaining life of 19.8 years.

Retirements totaling in excess of \$5 million were analyzed during the period 1975-2003 along with related net salvage experience and identified that the company has routinely experienced higher levels of negative net salvage over time in conjunction with service retirements. The three year rolling band analysis has produced net salvage ranging from forty (40) plus percent to in excess of negative eight-hundred (800) percent and has averaged negative 116 percent overall while the experienced net salvage forecasted to negative 240 plus percent. Based upon the company's experience and expectations and anticipated level of increased retirement activity at progressively higher retirement cost, future net salvage is estimated at negative seventy-five (75) percent. Utilizing the applicable average remaining lives together with the estimated future net salvage of negative seventy-five (75) percent produces an annual depreciation rate of 5.53 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 19.3 years and a proposed pro forma annual depreciation rate of 5.45 percent.

Account 369.20 - Underground Services

The current investment for Underground Services totals \$307,830,679. The current property has achieved an average age of 10.2 years and is presently being depreciated based upon an annual depreciation rate of 3.30 percent. The additions to the services

account during the past several decades have grown in the range of five (5) to over forty (40) percent.

The Company's historical retirements totaling \$22,228,336 were analyzed via the Retirement Rate Method and have achieved a current average age of 8.3 years. While the level of Underground Services investment has grown significantly over time, retirements have increased even more significantly during various years. It is anticipated that significant and increasing levels of Underground Services retirements will continue to occur in future years. Based upon the results of the historical analysis, and anticipated ongoing future retirement replacement activity, an Iowa 38-R2.5 life and curve is estimated for Underground Services. Application of the estimated service life parameters to the Company's current surviving investment produces an average remaining life of 29.0 years.

Retirements totaling more than \$21.7 million were analyzed during the period 1975-2003 along with related net salvage experience and identified that the Company has routinely experienced negative net salvage in conjunction with Underground Service retirements. The three year rolling band analysis shows net salvage has varied between positive and negative salvage and averaged approximately four (4) percent. Future net salvage is forecasted to in excess of negative thirty (30) percent. Based upon the Company's experience and expectations and anticipated level of increase of retirement activity at progressively higher retirement cost, future net salvage is estimated at negative twenty-five (25) percent. Utilizing the applicable average remaining lives, the estimated future net salvage of negative twenty-five (25) percent produces an annual depreciation rate of 3.40 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting

Future expectations are that little salvage will be experienced in conjunction with future retirements, hence, future net salvage is estimated at zero (0) percent. The resulting annual depreciation rate of 4.21 percent.

The historical December 31, 2003 plant in service and book depreciation reserve balances used to complete the depreciation study analysis were subsequently updated to December 31, 2005 using the Company's 2004 book activity and 2005 budget data. The service life parameters, per the depreciation study analysis, were applied to the resulting December 31, 2005 balances which produced a pro forma average remaining life of 16.0 years and a proposed pro forma annual depreciation rate of 3.93 percent.

Account 373 - Street Lighting and Signal Systems

The current surviving investment in this property group is \$227,226,492, has achieved a current average age of 8.4 years, and is currently being depreciated utilizing an annual depreciation rate of 8.00 percent.

Retirements totaling \$72,757,968 which occurred at an average age of 10.6 years were analyzed via the Retirement Rate Method. This analysis identifies that the property is achieving a useful service life of seventeen (17) years. Based upon the study results an Iowa 17-L2 life and curve is estimated for this property group. Application of the proposed service life parameters to the company's current investment produces an average remaining life of 10.8 years.

An analysis of the Company's historical salvage data during the year 1975-2003 was completed and identifies that the retirement of this property has experienced overall net salvage of fifteen (15) percent. However, more recent years have experienced a considerable amount of negative net salvage in the range of negative twenty (20) to ninety (90) percent. Likewise, future periods are anticipated to experience similar levels of higher negative net salvage. Based upon the trend of recent experience and future expectations, future net salvage is estimated at negative twenty (20) percent and the resulting proposed annual depreciation rate is 5.79 percent.



**Progress Energy Florida, Inc**  
**Total Company**  
**353.10 STATION EQUIPMENT**  
*Forecasted Future Net Salvage*  
*Based Upon Experienced Net Salvage 1975 - 2003*

<u>Year</u>	<u>Original Cost Of</u>	<u>Gross Salvage</u>		<u>Cost of Removal</u>		<u>Net Salvage</u>	
	<u>Retirements</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Annual Activity</u>							
1975	1,126,062.00	740,138.93	65.73%	48,241.06	4.28%	691,897.87	61.44%
1976	304,959.00	166,826.39	54.70%	13,182.69	4.32%	153,643.70	50.38%
1977	868,459.00	169,330.56	19.50%	20,404.49	2.35%	148,926.07	17.15%
1978	1,133,089.00	653,196.84	57.65%	99,102.39	8.75%	554,094.45	48.90%
1979	4,100,916.00	1,046,197.65	25.51%	105,210.72	2.57%	940,986.93	22.95%
1980	612,178.00	136,162.15	22.24%	5,729.52	0.94%	130,432.63	21.31%
1981	983,799.00	210,379.59	21.38%	35,097.42	3.67%	175,282.17	17.82%
1982	376,902.00	290,114.47	76.97%	30,273.34	8.03%	259,841.13	68.94%
1983	1,011,017.00	477,776.53	47.26%	39,105.62	3.87%	438,670.91	43.39%
1984	1,035,124.00	392,894.38	37.96%	19,125.54	1.85%	373,768.84	36.11%
1985	575,323.00	292,164.18	50.78%	38,118.77	6.63%	254,045.41	44.16%
1986	912,585.00	520,651.50	57.05%	80,709.30	8.84%	439,942.20	48.21%
1987	1,188,998.00	176,921.26	14.88%	73,706.17	6.20%	103,215.09	8.68%
1988	1,115,363.00	882,059.28	79.08%	132,830.80	11.91%	749,228.48	67.17%
1989	704,603.00	268,398.95	38.09%	141,719.66	20.11%	126,677.29	17.98%
1990	524,731.00	169,556.90	32.31%	132,017.78	25.16%	37,539.12	7.15%
1991	464,346.00	222,580.05	47.93%	36,328.64	7.82%	186,251.41	40.11%
1992	1,537,004.00	1,049,430.42	68.28%	166,551.70	10.84%	882,878.72	57.44%
1993	2,132,681.00	460,341.88	21.59%	358,915.13	16.83%	101,426.75	4.76%
1994	3,093,689.00	1,616,061.13	52.24%	805,841.14	26.05%	810,219.99	26.19%
1995	2,431,653.00	727,078.90	29.90%	256,278.33	10.54%	470,800.57	19.36%
1996	1,475,167.00	585,606.98	39.70%	92,751.14	6.29%	492,855.84	33.41%
1997	968,265.00	179,821.29	18.57%	134,209.98	13.86%	45,611.31	4.71%
1998	3,712,047.00	4,997,232.75	134.62%	400,337.58	10.78%	4,596,895.17	123.84%
1999	1,583,881.00	170,914.46	10.79%	117,984.59	7.45%	52,929.87	3.34%
2000	4,932,971.00	1,592,416.17	32.28%	384,171.10	7.79%	1,208,245.07	24.49%
2001	1,630,295.00	7,211.70	0.44%	80,035.05	4.91%	(72,823.35)	-4.47%
2002	3,260,449.96	0.00	0.00%	32,066.80	0.98%	(32,066.80)	-0.98%

*Progress Energy Florida, Inc*  
*Total Company*  
**353.10 STATION EQUIPMENT**  
*Forecasted Future Net Salvage*  
*Based Upon Experienced Net Salvage 1975 - 2003*

<u>Year</u>	<u>Original Cost Of</u>	<u>Gross Salvage</u>		<u>Cost of Removal</u>		<u>Net Salvage</u>	
	<u>Retirements</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Annual Activity</u>							
2003	1,750,920.70	562,165.83	32.11%	141,434.57	8.08%	420,731.26	24.03%

**Progress Energy Florida, Inc**  
**Total Company**  
**353.10 STATION EQUIPMENT**  
**Forecasted Future Net Salvage**  
**Based Upon Experienced Net Salvage 1975 - 2003**

<u>Year</u>	<u>Original Cost Of</u>	<u>Gross Salvage</u>		<u>Cost of Removal</u>		<u>Net Salvage</u>	
	<u>Retirements</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Three - Year Rolling Bands</u>							
1975 - 1977	2,299,480.00	1,076,295.88	46.81%	81,828.24	3.56%	994,467.64	43.25%
1976 - 1978	2,306,507.00	989,353.79	42.89%	132,689.57	5.75%	856,664.22	37.14%
1977 - 1979	6,102,464.00	1,868,725.05	30.62%	224,717.60	3.68%	1,644,007.45	26.94%
1978 - 1980	5,846,183.00	1,835,556.64	31.40%	210,042.63	3.59%	1,625,514.01	27.80%
1979 - 1981	5,696,893.00	1,392,739.39	24.45%	146,037.66	2.56%	1,246,701.73	21.88%
1980 - 1982	1,972,879.00	636,656.21	32.27%	71,100.28	3.60%	565,555.93	28.67%
1981 - 1983	2,371,718.00	978,270.59	41.25%	104,476.38	4.41%	873,794.21	36.84%
1982 - 1984	2,423,043.00	1,160,785.38	47.91%	88,504.50	3.65%	1,072,280.88	44.25%
1983 - 1985	2,621,464.00	1,162,835.09	44.36%	96,349.93	3.68%	1,066,485.16	40.68%
1984 - 1986	2,523,032.00	1,205,710.06	47.79%	137,953.61	5.47%	1,067,756.45	42.32%
1985 - 1987	2,676,906.00	989,736.94	36.97%	192,534.24	7.19%	797,202.70	29.78%
1986 - 1988	3,216,946.00	1,579,632.04	49.10%	287,246.27	8.93%	1,292,385.77	40.17%
1987 - 1989	3,008,964.00	1,327,377.49	44.11%	348,256.63	11.57%	979,120.86	32.54%
1988 - 1990	2,344,697.00	1,320,013.13	56.30%	406,568.24	17.34%	913,444.89	38.96%
1989 - 1991	1,693,680.00	660,533.90	39.00%	310,066.08	18.31%	350,467.82	20.69%
1990 - 1992	2,526,081.00	1,441,567.37	57.07%	334,898.12	13.26%	1,106,669.25	43.81%
1991 - 1993	4,134,031.00	1,732,352.35	41.90%	561,795.47	13.59%	1,170,556.88	28.32%
1992 - 1994	6,763,374.00	3,125,833.43	46.22%	1,331,307.97	19.68%	1,794,525.46	26.63%
1993 - 1995	7,658,023.00	2,803,481.91	36.61%	1,421,034.60	18.56%	1,382,447.31	18.05%
1994 - 1996	7,000,509.00	2,928,747.01	41.84%	1,154,870.61	16.50%	1,773,876.40	25.34%
1995 - 1997	4,875,085.00	1,492,507.17	30.61%	483,239.45	9.91%	1,009,267.72	20.70%
1996 - 1998	6,155,479.00	5,762,661.02	93.62%	627,298.70	10.19%	5,135,362.32	83.43%
1997 - 1999	6,264,193.00	5,347,968.50	85.37%	652,532.15	10.42%	4,695,436.35	74.96%
1998 - 2000	10,228,899.00	6,760,563.38	66.09%	902,493.27	8.82%	5,858,070.11	57.27%
1999 - 2001	8,147,147.00	1,770,542.33	21.73%	582,190.74	7.15%	1,188,351.59	14.59%
2000 - 2002	9,823,715.96	1,599,627.87	16.28%	496,272.95	5.05%	1,103,354.92	11.23%
2001 - 2003	6,641,665.66	569,377.53	8.57%	253,536.42	3.82%	315,841.11	4.76%



**Progress Energy Florida, Inc**  
**Total Company**  
**353.10 STATION EQUIPMENT**  
*Forecasted Future Net Salvage*  
*Based Upon Experienced Net Salvage 1975 - 2003*

<u>Year</u>	<u>Original Cost Of</u> <u>Retirements</u>	<u>Gross Salvage</u> <u>Amount</u>	<u>%</u>	<u>Cost of Removal</u> <u>Amount</u>	<u>%</u>	<u>Net Salvage</u> <u>Amount</u>	<u>%</u>
<b><u>Three - Year Rolling Bands</u></b>							
1975 - 2003	45,547,477.66	18,763,629.12	41.20 %	4,021,481.02	8.83 %	14,742,148.10	32.37 %

Trend Analysis (End Year) 2003

\*Based Upon Three - Year Rolling Averages

Annual Inflation Rate	2.75%
Average Service Life (ASL)	52.0
Average Retirement Age (Yrs)	9.1
Years To ASL	42.9
Inflation Factor At 2.75% to ASL	3.20

<u>Gross Salvage</u> <u>Linear Trend Analysis</u>		
1984-2003	20 - Year Trend	40.72%
1989-2003	15 - Year Trend	36.55%
1994-2003	10 - Year Trend	28.58%
1999-2003	5 - Year Trend	-21.41%

**Forecasted**

Gross Salvage	-21.41%
( Five Year Trend )	
Cost Of Removal	28.29%
Net Salvage	-49.70%

**Progress Energy Florida, Inc**  
**Total Company**  
**356.00 OVERHEAD CONDUCTORS AND DEVICES**  
**Forecasted Future Net Salvage**  
**Based Upon Experienced Net Salvage 1975 - 2003**

<u>Year</u>	<u>Original Cost Of</u>	<u>Gross Salvage</u>		<u>Cost of Removal</u>		<u>Net Salvage</u>	
	<u>Retirements</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Annual Activity</u>							
1975	1,106,746.00	832,821.09	75.25%	289,540.10	26.16%	543,280.99	49.09%
1976	767,165.00	632,264.54	82.42%	182,149.16	23.74%	450,115.38	58.67%
1977	633,418.00	351,787.17	55.54%	183,809.40	29.02%	167,977.77	26.52%
1978	759,903.00	575,821.97	75.78%	325,036.31	42.77%	250,785.66	33.00%
1979	961,603.00	313,749.70	32.63%	542,072.96	56.37%	(228,323.26)	-23.74%
1980	285,690.00	55,522.55	19.43%	51,473.54	18.02%	4,049.01	1.42%
1981	727,774.00	312,835.16	42.99%	190,146.64	26.13%	122,688.52	16.86%
1982	379,652.00	1,101,797.60	290.21%	166,299.26	43.80%	935,498.34	246.41%
1983	365,943.00	375,856.52	102.71%	168,664.78	46.09%	207,191.74	56.62%
1984	520,388.00	299,978.84	57.65%	142,000.81	27.29%	157,978.03	30.36%
1985	397,757.00	366,667.97	92.18%	425,671.98	107.02%	(59,004.01)	-14.83%
1986	595,911.00	346,221.17	58.10%	155,287.79	26.06%	190,933.38	32.04%
1987	205,615.00	201,403.18	97.95%	133,034.00	64.70%	68,369.18	33.25%
1988	284,867.00	275,718.63	96.79%	144,498.45	50.72%	131,220.18	46.06%
1989	483,376.00	1,373,179.75	284.08%	139,506.08	28.86%	1,233,673.67	255.22%
1990	427,482.00	277,081.12	64.82%	145,757.21	34.10%	131,323.91	30.72%
1991	936,583.00	231,205.61	24.69%	212,865.46	22.73%	18,340.15	1.96%
1992	291,225.00	173,870.59	59.70%	203,941.69	70.03%	(30,071.10)	-10.33%
1993	1,002,531.00	986,804.79	98.43%	259,125.07	25.85%	727,679.72	72.58%
1994	1,229,233.00	1,162,331.86	94.56%	264,260.14	21.50%	898,071.72	73.06%
1995	1,123,208.00	752,691.32	67.01%	661,319.46	58.88%	91,371.86	8.13%
1996	878,354.00	330,966.33	37.68%	727,530.42	82.83%	(396,564.09)	-45.15%
1997	613,556.00	351,834.46	57.34%	523,535.33	85.33%	(171,700.87)	-27.98%
1998	296,541.00	121,244.52	40.89%	271,876.44	91.68%	(150,631.92)	-50.80%
1999	368,128.00	849,932.37	230.88%	281,318.28	76.42%	568,614.09	154.46%
2000	451,124.00	334,521.08	74.15%	157,369.98	34.88%	177,151.10	39.27%
2001	310,372.55	718,499.84	231.50%	25,505.25	8.22%	692,994.59	223.28%
2002	778,528.52	116,539.36	14.97%	317,329.09	40.76%	(200,789.73)	-25.79%

*Progress Energy Florida, Inc*  
*Total Company*  
 356.00 OVERHEAD CONDUCTORS AND DEVICES  
*Forecasted Future Net Salvage*  
*Based Upon Experienced Net Salvage 1975 - 2003*

<u>Year</u>	<u>Original Cost Of</u>	<u>Gross Salvage</u>		<u>Cost of Removal</u>		<u>Net Salvage</u>	
	<u>Retirements</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Annual Activity</u>							
2003	286,972.21	18,439.79	6.43%	391,200.54	136.32%	(372,760.75)	-129.89%

**Progress Energy Florida, Inc**  
**Total Company**  
**356.00 OVERHEAD CONDUCTORS AND DEVICES**

*Forecasted Future Net Salvage  
 Based Upon Experienced Net Salvage 1975 - 2003*

<u>Year</u>	<u>Original Cost Of</u> <u>Retirements</u>	<u>Gross Salvage</u> <u>Amount</u> %	<u>Cost of Removal</u> <u>Amount</u> %	<u>Net Salvage</u> <u>Amount</u> %
<u>Three - Year Rolling Bands</u>				
1975 - 2003	17,469,646.28	13,841,588.88 79.23 %	7,682,125.62 43.97 %	6,159,463.26 35.26 %

Trend Analysis (End Year)

2003

\*Based Upon Three - Year Rolling Averages

Annual Inflation Rate	2.75%
Average Service Life (ASL)	48.0
Average Retirement Age (Yrs)	9.4
Years To ASL	38.6
Inflation Factor At 2.75% to ASL	2.85

Gross Salvage  
Linear Trend Analysis

1984-2003	20 - Year Trend	83.61%
1989-2003	15 - Year Trend	73.35%
1994-2003	10 - Year Trend	100.67%
1999-2003	5 - Year Trend	68.19%

Forecasted

Gross Salvage	68.19%
( Five Year Trend )	
Cost Of Removal	125.27%
Net Salvage	-57.09%

*Progress Energy Florida, Inc*  
*Total Company*  
 364.00 POLES, TOWER AND FIXTURES  
 Forecasted Future Net Salvage  
 Based Upon Experienced Net Salvage 1975 - 2003

<u>Year</u>	<u>Original Cost Of</u> <u>Retirements</u>	<u>Gross Salvage</u> <u>Amount</u>	<u>%</u>	<u>Cost of Removal</u> <u>Amount</u>	<u>%</u>	<u>Net Salvage</u> <u>Amount</u>	<u>%</u>
<u>Annual Activity</u>							
1975	1,024,094.00	461,467.72	45.06%	199,013.23	19.43%	262,454.49	25.63%
1976	958,983.00	362,744.67	37.83%	196,864.91	20.53%	165,879.76	17.30%
1977	1,021,818.00	366,471.37	35.86%	207,370.97	20.29%	159,100.40	15.57%
1978	1,048,387.00	469,095.85	44.74%	266,572.17	25.43%	202,523.68	19.32%
1979	1,121,981.00	663,186.35	59.11%	355,331.07	31.67%	307,855.28	27.44%
1980	1,165,205.00	854,494.96	73.33%	446,544.87	38.32%	407,950.09	35.01%
1981	2,065,274.00	827,076.86	40.05%	662,506.30	32.08%	164,570.56	7.97%
1982	1,325,200.00	891,634.43	67.28%	330,478.00	24.94%	561,156.43	42.35%
1983	1,274,262.00	1,180,440.99	92.64%	604,856.73	47.47%	575,584.26	45.17%
1984	1,157,835.00	1,308,527.96	113.02%	632,546.91	54.63%	675,981.05	58.38%
1985	1,943,364.00	1,303,767.27	67.09%	722,650.88	37.19%	581,116.39	29.90%
1986	1,816,640.00	1,214,551.55	66.86%	763,430.86	42.02%	451,120.69	24.83%
1987	2,222,872.00	1,126,691.16	50.69%	1,206,234.14	54.26%	(79,542.98)	-3.58%
1988	3,067,333.00	1,238,855.70	40.39%	1,020,198.75	33.26%	218,656.95	7.13%
1989	3,132,783.00	1,290,262.62	41.19%	1,219,624.95	38.93%	70,637.67	2.25%
1990	3,755,308.00	1,221,646.33	32.53%	868,336.03	23.12%	353,310.30	9.41%
1991	3,994,385.00	1,336,640.19	33.46%	711,415.96	17.81%	625,224.23	15.65%
1992	6,494,519.00	1,148,005.22	17.68%	1,375,979.28	21.19%	(227,974.06)	-3.51%
1993	-2,335,406.00	1,295,649.10	0.00%	1,651,851.20	0.00%	(356,202.10)	0.00%
1994	2,071,487.00	605,046.92	29.21%	1,529,248.39	73.82%	(924,201.47)	-44.62%
1995	1,703,710.00	1,248,298.18	73.15%	1,744,928.11	102.42%	(498,629.93)	-29.27%
1996	1,780,090.00	1,388,296.59	77.99%	2,043,122.26	114.78%	(654,825.67)	-36.79%
1997	1,826,488.00	1,406,633.08	77.01%	1,989,393.37	108.92%	(582,760.29)	-31.91%
1998	3,849,955.00	-2,087,466.18	-54.22%	715,279.72	18.58%	(2,802,745.90)	-72.80%
1999	2,257,195.00	807,158.13	35.76%	1,618,130.41	71.69%	(810,972.28)	-35.93%
2000	1,579,277.00	1,027,226.87	65.04%	1,312,493.18	83.11%	(285,266.31)	-18.06%
2001	501,138.92	3,099,601.61	618.51%	5,466,543.34	1090.82%	(2,366,941.73)	-472.31%
2002	194,928.26	5,806.84	2.98%	285,733.51	146.58%	(279,926.67)	-143.60%

**Progress Energy Florida, Inc**  
**Total Company**  
**364.00 POLES, TOWER AND FIXTURES**  
*Forecasted Future Net Salvage*  
*Based Upon Experienced Net Salvage 1975 - 2003*

<u>Year</u>	<u>Original Cost Of Retirements</u>	<u>Gross Salvage</u>		<u>Cost of Removal</u>		<u>Net Salvage</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Three - Year Rolling Bands</u>							
1975 - 2003	52,595,351.95	27,310,384.30	51.93 %	30,284,063.69	57.58 %	(2,973,679.39)	-5.65 %

Trend Analysis (End Year) 2003

\*Based Upon Three - Year Rolling Averages

Annual Inflation Rate	2.75%
Average Service Life (ASL)	28.0
Average Retirement Age (Yrs)	6.8
Years To ASL	21.2
Inflation Factor At 2.75% to ASL	1.78

Gross Salvage  
Linear Trend Analysis

1984-2003	20 - Year Trend	129.33%
1989-2003	15 - Year Trend	164.57%
1994-2003	10 - Year Trend	185.19%
1999-2003	5 - Year Trend	387.15%

Forecasted

Gross Salvage	387.15%
( Five Year Trend )	
Cost Of Removal	102.24%
Net Salvage	284.91%

**Progress Energy Florida, Inc**  
**Total Company**  
**365.00 OVERHEAD CONDUCTORS & DEVICES**  
**Forecasted Future Net Salvage**  
**Based Upon Experienced Net Salvage 1975 - 2003**

<u>Year</u>	<u>Original Cost Of</u> <u>Retirements</u>	<u>Gross Salvage</u> <u>Amount</u>	<u>%</u>	<u>Cost of Removal</u> <u>Amount</u>	<u>%</u>	<u>Net Salvage</u> <u>Amount</u>	<u>%</u>
<u>Three - Year Rolling Bands</u>							
1975 - 2003	50,813,224.48	48,802,365.32	96.04 %	47,025,594.04	92.55 %	1,776,771.28	3.50 %

Trend Analysis (End Year) 2003

\*Based Upon Three - Year Rolling Averages

Annual Inflation Rate 2.75%  
 Average Service Life (ASL) 33.0  
 Average Retirement Age (Yrs) 6.8  
 Years To ASL 26.2  
 Inflation Factor At 2.75% to ASL 2.03

Gross Salvage  
Linear Trend Analysis

1984-2003	20 - Year Trend	153.40%
1989-2003	15 - Year Trend	155.15%
1994-2003	10 - Year Trend	31.12%
1999-2003	5 - Year Trend	-43.33%

Forecasted

Gross Salvage	-43.33%
( Five Year Trend )	
Cost Of Removal	188.33%
Net Salvage	-231.66%

*Progress Energy Florida, Inc*  
*Total Company*  
 369.20 SERVICES-UNDERGROUND  
*Forecasted Future Net Salvage*  
*Based Upon Experienced Net Salvage 1975 - 2003*

<u>Year</u>	<u>Original Cost Of</u>	<u>Gross Salvage</u>	<u>Cost of Removal</u>		<u>Net Salvage</u>	
	<u>Retirements</u>	<u>Amount</u> %	<u>Amount</u>	%	<u>Amount</u>	%
<u>Annual Activity</u>						
2003	8,950,966.70	5,017.61 0.06%	44,004.45 0.49%		(38,986.84)	-0.44%



**Progress Energy Florida, Inc**  
**Total Company**  
**369.20 SERVICES-UNDERGROUND**  
*Forecasted Future Net Salvage*  
*Based Upon Experienced Net Salvage 1975 - 2003*

<u>Year</u>	<u>Original Cost Of</u> <u>Retirements</u>	<u>Gross Salvage</u> <u>Amount</u>	<u>%</u>	<u>Cost of Removal</u> <u>Amount</u>	<u>%</u>	<u>Net Salvage</u> <u>Amount</u>	<u>%</u>
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Three - Year Rolling Bands

1975 - 2003	21,769,657.35	3,370,154.87	15.48 %	2,399,303.05	11.02 %	970,851.82	4.46 %
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*Trend Analysis (End Year)*

2003

\*Based Upon Three - Year Rolling Averages

Annual Inflation Rate	2.75%
Average Service Life (ASL)	38.0
Average Retirement Age (Yrs)	5.3
Years To ASL	32.7
Inflation Factor At 2.75% to ASL	2.43

Gross Salvage

Linear Trend Analysis

1984-2003	20 - Year Trend	-70.01%
1989-2003	15 - Year Trend	8.17%
1994-2003	10 - Year Trend	-23.53%
1999-2003	5 - Year Trend	-3.42%

Forecasted

Gross Salvage	-3.42%
( Five Year Trend )	
Cost Of Removal	26.76%
Net Salvage	-30.18%

**Progress Energy Florida, Inc**  
**Total Company**  
**373.00 STREET LIGHTING & SIGNAL**  
*Forecasted Future Net Salvage*  
*Based Upon Experienced Net Salvage 1975 - 2003*

<u>Year</u>	<u>Original Cost Of</u>	<u>Gross Salvage</u>		<u>Cost of Removal</u>		<u>Net Salvage</u>	
	<u>Retirements</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Annual Activity</u>							
1975	460,818.00	300,423.51	65.19%	45,320.40	9.83%	255,103.11	55.36%
1976	586,554.00	408,919.86	69.72%	88,368.84	15.07%	320,551.02	54.65%
1977	672,847.00	347,228.16	51.61%	82,668.17	12.29%	264,559.99	39.32%
1978	685,851.00	291,902.88	42.56%	43,928.95	6.41%	247,973.93	36.16%
1979	564,295.00	233,929.15	41.46%	56,588.89	10.03%	177,340.26	31.43%
1980	525,781.00	331,787.31	63.10%	73,949.59	14.06%	257,837.72	49.04%
1981	676,737.00	246,342.61	36.40%	132,419.90	19.57%	113,922.71	16.83%
1982	1,793,768.00	756,132.08	42.15%	132,638.80	7.39%	623,493.28	34.76%
1983	2,997,771.00	1,614,152.54	53.85%	315,783.14	10.53%	1,298,369.40	43.31%
1984	2,832,168.00	1,012,859.21	35.76%	142,487.71	5.03%	870,371.50	30.73%
1985	2,972,002.00	1,172,348.41	39.45%	145,219.82	4.89%	1,027,128.59	34.56%
1986	2,949,269.00	2,019,419.51	68.47%	157,244.15	5.33%	1,862,175.36	63.14%
1987	3,716,784.00	1,445,259.93	38.88%	238,484.09	6.42%	1,206,775.84	32.47%
1988	6,044,329.00	1,015,200.21	16.80%	220,713.36	3.65%	794,486.85	13.14%
1989	5,481,329.00	1,580,870.69	28.84%	228,446.80	4.17%	1,352,423.89	24.67%
1990	6,520,763.00	1,530,918.27	23.48%	501,769.40	7.69%	1,029,148.87	15.78%
1991	6,166,361.00	628,446.35	10.19%	725,788.51	11.77%	(97,342.16)	-1.58%
1992	8,415,567.00	411,055.97	4.88%	357,508.01	4.25%	53,547.96	0.64%
1993	-6,248,399.00	304,698.19	0.00%	559,632.68	0.00%	(254,934.49)	0.00%
1994	2,469,674.00	1,337,762.46	54.17%	571,132.50	23.13%	766,629.96	31.04%
1995	2,420,829.00	313,899.75	12.97%	428,244.03	17.69%	(114,344.28)	-4.72%
1996	2,438,225.00	462,148.97	18.95%	502,978.68	20.63%	(40,829.71)	-1.67%
1997	2,361,271.00	-6,298,416.08	-266.74%	660,826.96	27.99%	(6,959,243.04)	-294.72%
1998	2,419,203.00	8,457,261.92	349.59%	1,967,994.78	81.35%	6,489,267.14	268.24%
1999	2,032,436.00	807,303.37	39.72%	1,237,632.95	60.89%	(430,329.58)	-21.17%
2000	2,839,883.00	639,601.90	22.52%	860,548.14	30.30%	(220,946.24)	-7.76%
2001	953,933.16	1,088,743.90	114.13%	1,799,002.71	188.59%	(710,258.81)	-74.46%
2002	484,114.09	169,730.26	35.06%	0.00	0.00%	169,730.26	35.06%

**Progress Energy Florida, Inc**  
**Total Company**  
**373.00 STREET LIGHTING & SIGNAL**  
**Forecasted Future Net Salvage**  
**Based Upon Experienced Net Salvage 1975 - 2003**

<u>Year</u>	<u>Original Cost Of</u> <u>Retirements</u>	<u>Gross Salvage</u>		<u>Cost of Removal</u>		<u>Net Salvage</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Three - Year Rolling Bands</u>							
1975 - 2003	67,744,596.87	22,639,255.69	33.42 %	12,450,358.58	18.38 %	10,188,897.11	15.04 %

Trend Analysis (End Year) 2003

\*Based Upon Three - Year Rolling Averages

Annual Inflation Rate	2.75%
Average Service Life (ASL)	17.0
Average Retirement Age (Yrs)	4.7
Years To ASL	12.3
Inflation Factor At: 2.75% to ASL	1.40

Gross Salvage  
Linear Trend Analysis

1984-2003	20 - Year Trend	37.63%
1989-2003	15 - Year Trend	53.53%
1994-2003	10 - Year Trend	68.21%
1999-2003	5 - Year Trend	34.29%

<u>Forecasted</u>	
Gross Salvage	34.29%
( Five Year Trend )	
Cost Of Removal	25.65%
Net Salvage	8.64%

001078

204. Reserve – Regarding the Company's presentation of both theoretical and book reserves set forth in the depreciation study and summarized on pages 2-52, 2-56, 2-62, 2-69, and 2-135, at this time please state both the theoretical and book reserve depreciation amounts as of the end of 2003 and 2005. Reflecting all values, including those associated with each general plant account, and reflect the theoretical and book reserves with and without the \$250 million allocation of retail reserve debit. Further, provide a detailed numerical and narrative reconciliation explaining the differences presented in the depreciation study and the values as reflected in the Company's books as of December 31, 2003 and expected to be reflected on the Company's books as of December 31, 2005 following the same assumptions reflected in the depreciation study. Finally, specifically and separately identify the excess level of book reserve over theoretical reserve in total with and without the \$250 million retail reserve debit for the Company, as well as the individual account amounts that the book reserve is either above or below the theoretical reserve, both with and without the \$250 million retail debit for the two periods December 31, 2003 and December 31, 2005.

**Answer:**

In the Depreciation Study the theoretical and book reserve amounts are provided at Table 5 for year end 2003 and Table 5F for year end 2005. The table below summarizes the theoretical vs. book reserve comparison with and without the retail reserve allocation to book for year ended 12/31/03 and 12/31/05. The 12/31/03 retail reserve allocated to book was \$125M as that was the amount accrued to that date. Please also see Attachment C, which outlines the analysis.

	Theoretical Reserve	Book Reserve w/o Retail Reserve Allocation	Book Reserve w/o Allocation Over Theoretical	Book Reserve with Retail Reserve Allocation	Book Reserve with Retail Reserve Allocation Over Theoretical
12/31/03	3,099,684,390	3,743,748,510	644,064,120	3,618,748,510	519,064,120
12/31/05	3,483,800,821	4,237,850,753	754,049,932	3,987,850,753	504,049,932

There are no differences between the information presented in the depreciation study and the Company's book balances as of December 31, 2003 and that which is expected to be reflected on the Company's books as of December 31, 2005.

212. Nuclear Decommissioning. The prefiled testimony of Dale Young indicates that the Company is proposing \$0 nuclear decommissioning accrual in the future test year as the current fund balance is sufficient to cover the projected cost to the end of the extended plant life in 2036.

a. Provide the current fund balance as of the present date and the projected fund balance as of January 1, 2006 as compared to the necessary fund balance as of those dates to meet the funding requirements in the decommissioning study.

b. By how much is the decommissioning fund over-funded as of the current date and projected as of January 1, 2006 as compared to the findings in the decommissioning study?

c. Please explain, in detail, the Company proposal with regards to the current overfunding and explain, in detail, why the Company's proposal is appropriate.

**Answer:**

**212.a**

Fund Balance as of 4/30/05	\$367,670,438
Projected Balance on 1/1/06	\$381,151,687

Balance necessary on 4/30/05 to meet funding requirements in study	\$242,502,844
Balance necessary on 1/1/06 to meet funding requirements in study	\$251,394,615

**212.b**

Amount over-funded as of 4/30/05	\$125,167,594
Amount over-funded as of 1/1/06	\$129,757,072

**212.c**

The Company's proposal with regards to the current overfunding is to continue the Company's current practice (established in Docket No. 000824-EI) of collecting nothing for decommissioning expense from its retail customers and contributing nothing to the decommissioning funds. The Company thinks that, with more than 30 years until license expiration, there is too much time and uncertainty to consider alternatives that would reduce the current fund balance.

# **Progress Energy Florida Ten-Year Site Plan**

**April 2003**



**Progress Energy**

DOCUMENT NUMBER-DATE

02982 MAR 31 8

PROD-COMMISSION CLERK

00158

PROGRESS ENERGY FLORIDA

SCHEDULE 2.1  
HISTORY AND FORECAST OF ENERGY CONSUMPTION AND  
NUMBER OF CUSTOMERS BY CUSTOMER CLASS

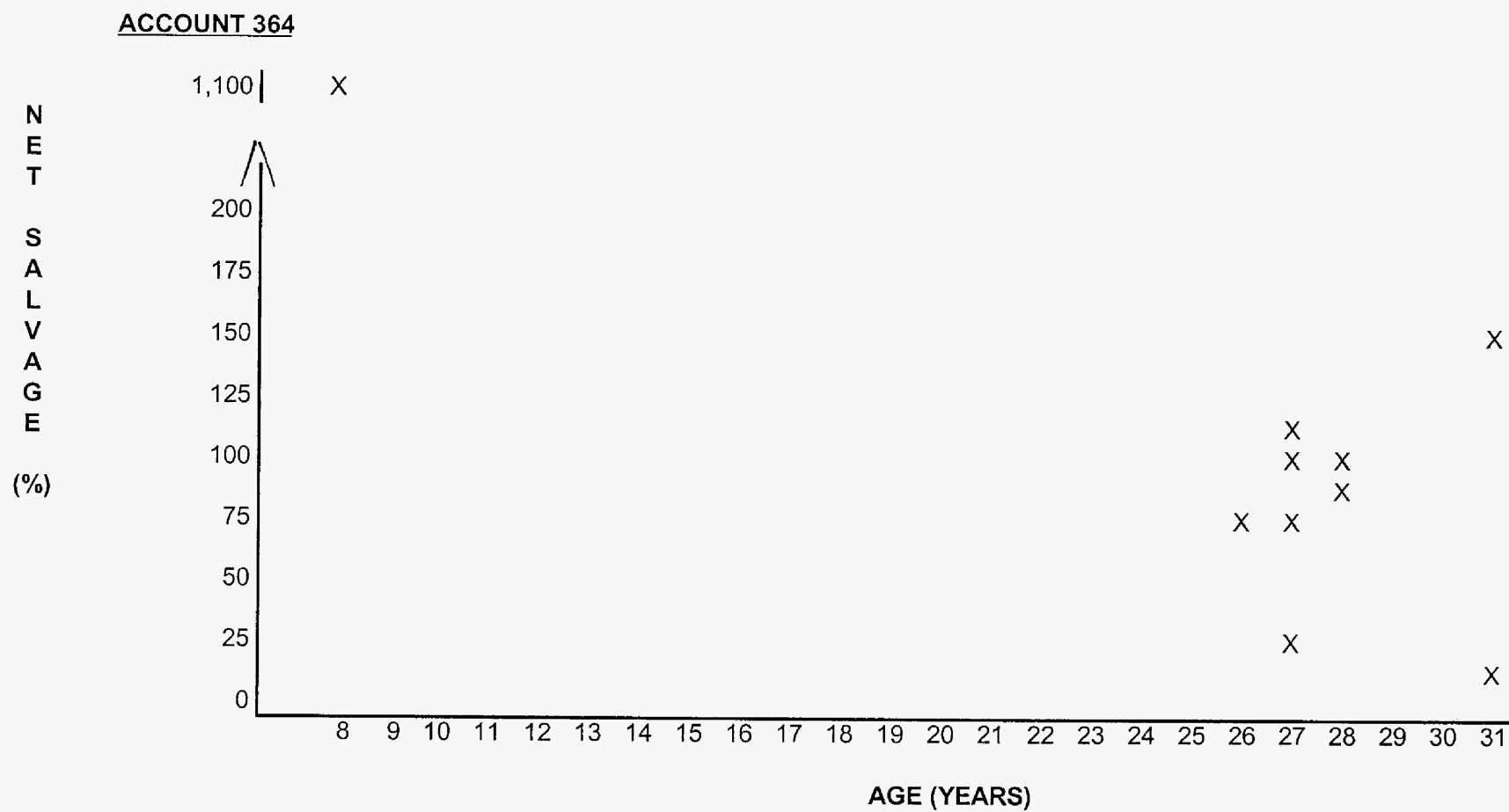
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
YEAR	RURAL AND RESIDENTIAL				COMMERCIAL			
	PEF POPULATION	MEMBERS PER HOUSEHOLD	GWh	AVERAGE NO. OF CUSTOMERS	AVERAGE KWh CONSUMPTION PER CUSTOMER	GWh	AVERAGE NO. OF CUSTOMERS	AVERAGE KWh CONSUMPTION PER CUSTOMER
1993	2,663,086	2.473	13,373	1,076,657	12,421	7,885	119,811	65,812
1994	2,734,821	2.485	13,863	1,100,537	12,597	8,252	122,987	67,097
1995	2,801,105	2.491	14,938	1,124,679	13,282	8,612	126,189	68,247
1996	2,847,802	2.494	15,481	1,141,671	13,560	8,848	129,440	68,356
1997	2,895,266	2.495	15,080	1,160,611	12,993	9,257	132,504	69,862
1998	2,959,509	2.502	16,526	1,182,786	13,972	9,999	136,345	73,336
1999	3,047,293	2.511	16,245	1,213,470	13,387	10,327	140,897	73,295
2000	3,044,459	2.467	17,116	1,234,286	13,867	10,813	143,475	75,368
2001	3,141,867	2.465	17,604	1,274,672	13,810	11,061	146,983	75,251
2002	3,207,661	2.465	18,754	1,301,515	14,409	11,420	150,577	75,842
2003	3,257,240	2.461	19,025	1,323,365	14,376	11,891	152,768	77,837
2004	3,304,629	2.460	19,496	1,343,486	14,512	12,313	155,315	79,278
2005	3,347,997	2.455	19,956	1,363,476	14,636	12,716	157,154	80,914
2006	3,394,454	2.451	20,428	1,384,860	14,751	13,090	159,862	81,883
2007	3,447,017	2.449	20,905	1,407,587	14,852	13,459	162,739	82,703
2008	3,505,442	2.449	21,409	1,431,210	14,959	13,834	165,728	83,474
2009	3,566,998	2.451	21,912	1,455,275	15,057	14,210	168,773	84,196
2010	3,628,453	2.453	22,422	1,479,339	15,157	14,597	171,819	84,956
2011	3,696,399	2.454	22,932	1,506,312	15,224	14,994	175,282	85,542
2012	3,747,779	2.455	23,448	1,526,460	15,361	15,399	177,785	86,616

PROGRESS ENERGY FLORIDA, INC.  
NET SALVAGE RECOMMENDATIONS

<u>Acct</u>	<u>Description</u>	<u>Existing Net Salvage</u>	<u>Company 2002 Depr Study Net Salvage</u>	<u>Company Proposed Net Salvage</u>	<u>OPC's Recommended Net Salvage</u>	<u>Difference</u>	<u>\$ Amount</u>	<u>Reserve Impact</u>
353.1	Transmission Station Equipment	10%	10%	0%	10%	10%	\$1,035,669	\$41,426,841
355.0	Transmission Poles & Fixtures	-30%	-25%	-25%	-15%	10%	\$916,183	\$28,630,770
356.0	Transmission Conductors & Devices	-20%	-15%	-30%	-10%	20%	\$1,317,991	\$43,933,098
362.0	Distribution Station Equipment	15%	5%	-15%	0%	15%	\$1,665,887	\$55,529,642
364.0	Distribution Poles, Tower & Fixtures	-25%	-25%	-90%	-35%	55%	\$15,070,658	\$262,305,794
365.0	Distribution Overhead Conductors & Devices	-35%	-25%	-25%	-15%	10%	\$2,159,190	\$49,072,536
367.0	Distribution Underground Conductors & Device	0%	0%	-15%	-5%	10%	\$1,844,786	\$44,994,837
368.0	Distribution Line Transformers	15%	-10%	-10%	-5%	5%	\$1,380,432	\$20,915,662
369.1	Distribution Services - Overhead	-50%	-50%	-75%	-50%	25%	\$1,018,782	\$19,743,885
369.2	Distribution Services - Underground	-15%	-10%	-25%	0%	25%	\$3,197,837	\$94,054,077
373.0	Distribution Street Lighting	-10%	-5%	-20%	0%	20%	<u>\$4,934,540</u>	<u>\$53,363,464</u>
							<u>\$34,541,955</u>	<u>\$713,970,605</u>



# PROGRESS ENERGY FLORIDA HISTORICAL COST OF REMOVAL VERSUS AGE OF RETIREMENT



00161

**REBUTTAL TESTIMONY**  
**OF**  
**EARL M. ROBINSON**  
**KANSAS GAS SERVICE**  
**DOCKET NO. 03-KGSG-602-RTS**

1   **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   **A.   My name is Earl M. Robinson. My business address is AUS Consultants - Weber**  
3       **Fick & Wilson Division, 1000 North Front Street, Suite 200, Wormleysburg, PA**  
4       **17043.**

5   **Q.   ARE YOU THE SAME EARL M. ROBINSON WHO FILED DIRECT TESTIMONY IN**  
6       **THIS DOCKET?**

7   **A.   Yes.**

8   **Q.   WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9   **A.   The purpose of my rebuttal testimony is to provide a response to the direct testimony**  
10       **of Mr. Michael J. Majoros, Jr. (testifying on behalf of the KCC Commission Staff and**  
11       **Citizens Utility Ratepayer Board) and to provide information concerning the**  
12       **appropriateness of the KGS depreciation proposal in this case. In Section I of my**  
13       **testimony, I will discuss Mr. Jajoros' testimony in general with specific discussion**  
14       **relating to the flaws contained in Mr. Majoros' testimony related to net salvage value.**  
15       **Separately, Dr. Ronald E. White will provide additional testimony regarding net**  
16       **salvage. Section II of my testimony will rebut Mr. Majoros' testimony regarding the**  
17       **service lives of various plant accounts.**

18

1 company of the seventy-two report companies using a life of 63 years, while the  
2 overwhelming majority of the remaining companies are utilizing service lives far  
3 shorter. As with all the other accounts analyzed, the Company's average service life  
4 for this account should not be based upon a survey of the industry, but upon the  
5 Company general experience trends. The industry data is just one additional sanity  
6 check of the reasonableness of the life estimate for the Company's property. Finally,  
7 Mr. Majoros again attempts to support his proposed service life from the results  
8 generated from his use of the antiquated GMT method. The GMT method clearly  
9 has no validity in projecting an estimated life for this property group.

10 **Q. ON PAGE 33 OF HIS DIRECT TESTIMONY, MR. MAJOROS MAKES SEVERAL**  
11 **STATEMENTS AND A RECOMMENDATION REGARDING AN AVERAGE**  
12 **SERVICE LIFE FOR ACCOUNT 391.1. WHAT IS YOUR RESPONSE?**

13 **A.** In response to the statement that there are likely under recorded retirements in this  
14 account, Mr. Majoros states: "This is exactly the wrong logic for a life selection." Mr.  
15 Majoros is simply wrong on this assertion. The company is acknowledging that there  
16 is likely an issue with the level of prior retirements and anticipates correcting the  
17 circumstance through a review of the facilities and ultimate retirement of those  
18 facilities no longer in service. What needs to be identified with regard to the future  
19 life of the investment in this account is not what was recorded in error in prior years,  
20 but what is the correct life that will be experienced in future years. Mr. Majoros also  
21 states that the industry statistics support a 35-year life. This assertion is totally false.  
22 While the lives utilized for this class of property within the industry range up to a  
23 maximum of 50 years, the 50 year life is only used by one of ninety-eight reporting  
24 companies. The mean average service life reported by the 98 companies within the  
25 industry survey is only fourteen years. This mean average life of 14 years is  
26 certainly much more consistent to what I have routinely seen for this property class

Progress Energy Florida Inc  
 Plant Analysis by Function

Line 353.1 - Station Equipment (Excl. ECC)  
 No

1	Estimated Depreciable Balance at 12/31/2002	\$361,752	A
2	Proposed Average Service Life	40.0	B
3	Proposed Remaining Average Service Life	27.0	C
4	Proposed Net Salvage Ratio (%)	10.0	C
5	Proposed Depreciation Rate (%)	2.2	D
6	Current Depreciation Rate (%)	2.2	D
7			
8	Proposed Annual Depreciation Accrual	\$7,959	D
9	Current Annual Depreciation Accrual	\$7,959	D
10	Difference	\$0	

11

12 DISCUSSION

An analysis of removal costs and salvage for period 1976 - 2001 results in a positive net salvage ratio of 35%. The majority of salvage credits are derived from warehouse returns (recapitalized material); therefore, the account shows relatively low terminal salvage, approximately 7%. The Company proposes a net salvage ratio of 10% consisting of terminal salvage and warehouse returns of 20% and cost of removal of 10%. A 10% net salvage ratio is consistent with Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI.

The Company proposes a R2 curve to define life characteristics with an ASL of 40 as approved in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI.

Line 353.2 - Energy Control Center  
 No

1	Estimated Depreciable Balance at 12/31/2002	\$31,757	A
2	Proposed Average Service Life	12.0	B
3	Proposed Remaining Average Service Life	2.8	C
4	Proposed Net Salvage Ratio (%)	0.0	C
5	Proposed Depreciation Rate (%)	5.9	D
6	Current Depreciation Rate (%)	10.9	D
7			
8	Proposed Annual Depreciation Accrual	\$1,874	D
9	Current Annual Depreciation Accrual	\$3,462	D
10	Difference	(\$1,588)	

11

12 DISCUSSION

Energy Control Center personnel originally indicated a life of 15 years for this equipment. The Company proposes a life of 12 years using a S6 curve. Given the changing environment of RTO's in Florida, our assumptions in 1997 of the evolution of the Transmission System may have been premature. Conversations with FERC personnel indicate that there may be replacing or retiring major pieces of equipment in the immediate future.

There has been little activity regarding cost of removal and salvage; therefore the Company is requesting to maintain a net salvage ratio of 0% as approved in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI.

Progress Energy Florida Inc  
 Plant Analysis by Function

The Company is requesting an ASL of 37 and lowa curve of R2 as opposed to an ASL of 31 and lowa curve of L1.5 approved in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI. Our proposed ASL and curve type best fits the survivor data of account 355.

Expected cost of removal is forecast at 45% with salvage broken down as terminal salvage of 6% and reused equipment expected to be approximately 15% producing a net salvage ratio of negative 25%.

Line 356 - Overhead Conductor & Devices  
 No

1	Estimated Depreciable Balance at 12/31/2002	\$191,293	A
2	Proposed Average Service Life	41.0	B
3	Proposed Remaining Average Service Life	26.0	C
4	Proposed Net Salvage Ratio (%)	(15.0)	C
5	Proposed Depreciation Rate (%)	2.1	D
6	Current Depreciation Rate (%)	3.3	D
7			
8	Proposed Annual Depreciation Accrual	\$4,008	D
9	Current Annual Depreciation Accrual	\$6,313	D
10	Difference	<u>(\$2,305)</u>	

12 DISCUSSION

The Company proposes an ASL of 41 years with a R2.5 curve. The curve type is consistent with that approved in Docket No. 971570-EI Order No. PSC-98-1723-EI. The proposed ASL increased from 34 to 41 from the last depreciation study as it best fits the survivor data of account 355.

Historically, cost of removal has averaged close to 45%. For salvage, the Company proposes a salvage factor of 30% consisting of 15% for reuse and 15% for terminal salvage. Remaining salvage represents relocation of facilities and is not expected to reoccur at the frequency of the late 1980's and early 1990's.

00165

Progress Energy Florida Inc  
 Plant Analysis by Function

The Company is requesting an ASL of 37 and Iowa curve of R2 as opposed to an ASL of 31 and Iowa curve of L1.5 approved in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI. Our proposed ASL and curve type best fits the survivor data of account 355.

Expected cost of removal is forecast at 45% with salvage broken down as terminal salvage of 6% and reused equipment expected to be approximately 15% producing a net salvage ratio of negative 25%.

Line 356 - Overhead Conductor & Devices  
 No

1	Estimated Depreciable Balance at 12/31/2002	\$191,293	A
2	Proposed Average Service Life	41.0	B
3	Proposed Remaining Average Service Life	26.0	C
4	Proposed Net Salvage Ratio (%)	(15.0)	C
5	Proposed Depreciation Rate (%)	2.1	D
6	Current Depreciation Rate (%)	3.3	D
7			
8	Proposed Annual Depreciation Accrual	\$4,008	D
9	Current Annual Depreciation Accrual	\$6,313	D
10	Difference	<u>(\$2,305)</u>	

11

12 DISCUSSION

The Company proposes an ASL of 41 years with a R2.5 curve. The curve type is consistent with that approved in Docket No. 971570-EI Order No. PSC-98-1723-EI. The proposed ASL increased from 34 to 41 from the last depreciation study as it best fits the survivor data of account 356.

Historically, cost of removal has averaged close to 45%. For salvage, the Company proposes a salvage factor of 30% consisting of 15% for reuse and 15% for terminal salvage. Remaining salvage represents relocation of facilities and is not expected to reoccur at the frequency of the late 1980's and early 1990's.

00166

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Progress Energy Florida Inc  
Plant Analysis by Function

Line 362 - Station Equipment  
No

1	Estimated Depreciable Balance at 12/31/2002	\$328,373	A
2	Proposed Average Service Life	41.0	B
3	Proposed Remaining Average Service Life	30.0	C
4	Proposed Net Salvage Ratio (%)	5.0	C
5	Proposed Depreciation Rate (%)	2.2	D
6	Current Depreciation Rate (%)	2.3	D
7			
8	Proposed Annual Depreciation Accrual	\$7,224	D
9	Current Annual Depreciation Accrual	\$7,553	D
10	Difference	<u>(\$329)</u>	

11

12 DISCUSSION

The Company recommends a 5% net salvage ratio. The Company's service territory growth has lead to increased substation capacity resulting in moderate salvage credits from material returned to storerooms. Terminal salvage represents only 6% of total salvage and is offset by a 10% cost of removal since 1975. The Company expects approximately 10% of future retirements to be reused in future installations as compared to 25-30% in its 1997 Depreciation Study.

An ASL of 41 years was chosen as the best fit utilizing a R1.5 curve. This curve type was approved in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI.

Line 364 - Poles, Towers & Fixtures  
No

1	Estimated Depreciable Balance at 12/31/2002	\$387,953	A
2	Proposed Average Service Life	32.0	B
3	Proposed Remaining Average Service Life	24.0	C
4	Proposed Net Salvage Ratio (%)	(25.0)	C
5	Proposed Depreciation Rate (%)	3.3	D
6	Current Depreciation Rate (%)	4.2	D
7			
8	Proposed Annual Depreciation Accrual	\$12,802	D
9	Current Annual Depreciation Accrual	\$16,294	D
10	Difference	<u>(\$3,492)</u>	

11

12 DISCUSSION

Since this account is maintained in mass, the Simulated Plant Record (SPR) Analysis Module of the DVS system was run. The SPR program supports an ASL of 30-40 years. Indications based on the analysis are that poles and overhead conductors are experiencing slightly longer ASL's.

This account is retired on a FIFO (first in - first out) method. FIFO tends to overstate the ASL and understate plant retirements associated with the account.

Progress Energy Florida Inc  
 Plant Analysis by Function

An ASL of 32 was chosen as the best fit utilizing a R1 curve. This curve type was approved in Docket No.971570-EI Order No. PSC-98-1723-FOF-EI.

A review of reserve transactions for this account yields a net salvage ratio of -25%. Of the various sources of salvage credits for this account, about 96% of the credits were due to reimbursements caused by line relocations, public accidents and material returned to storerooms. Terminal salvage represents only 4% of the original cost while removal costs are 58% over the same period. With reuse of about 20%, other salvage 10% and removal costs estimated at 55%, The Company recommends a net salvage ratio of -25% as approved in the aforementioned Order.

Line 365 - Overhead Conductor & Devices  
 No

1	Estimated Depreciable Balance at 12/31/2002	\$415,581	A
2	Proposed Average Service Life	33.0	B
3	Proposed Remaining Average Service Life	24.0	C
4	Proposed Net Salvage Ratio (%)	(25.0)	C
5	Proposed Depreciation Rate (%)	3.1	D
6	Current Depreciation Rate (%)	4.7	D
7			
8	Proposed Annual Depreciation Accrual	\$12,883	D
9	Current Annual Depreciation Accrual	\$19,532	D
10	Difference	(\$6,649)	

11

12 DISCUSSION

As with account 364, the SPR program was run. This program lends support to a 33 year ASL based on the range of 27-43 years produced.

The analysis of salvage credits and removal costs support a net salvage ratio of -25%. Terminal salvage averages 25%, while removal costs averages 102%. Future removal costs are expected to average 100% of original cost. Reuse is expected to range between 35% - 40%. Reimbursements are expected to average 20-25%.

The Company recommends maintaining a R1 curve as approved in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI.

Line 366 - Underground Conduit  
 No

1	Estimated Depreciable Balance at 12/31/2002	\$125,953	A
2	Proposed Average Service Life	45.0	B
3	Proposed Remaining Average Service Life	35.0	C
4	Proposed Net Salvage Ratio (%)	0.0	C
5	Proposed Depreciation Rate (%)	2.2	D
6	Current Depreciation Rate (%)	2.2	D
7			
8	Proposed Annual Depreciation Accrual	\$2,771	D
9	Current Annual Depreciation Accrual	\$2,771	D
10	Difference	\$0	



Progress Energy Florida Inc.  
Plant Analysis by Function

11

12 DISCUSSION

A review of salvage and removal costs shows a net salvage ratio of 0%. This is the result of abnormal salvage as opposed to terminal salvage. The majority of salvage is the result of public accidents (trenching, dig-ins). Conversations with E&O personnel reveal that because of the high costs of removing conduit and its low salvage, if any, conduit is generally retired in place or abandoned; thus, the Company recommends a continuation of a 0% net salvage ratio.

The SPR program was used to generate a range of ASL's between 41 and 49 years. Since this account uses FIFO as the method for recording retirements, the Company utilized a R3 curve and ASL of 45 years as the best fit for this account. This curve type and ASL are consistent with Docket No. 971570-EI Order NO. PSC-98-1723-FOF-EI.

Line 367 - Underground Conduit & Devices  
No

1	Estimated Depreciable Balance at 12/31/2002	\$386,835	A
2	Proposed Average Service Life	37.0	B
3	Proposed Remaining Average Service Life	30.0	C
4	Proposed Net Salvage Ratio (%)	0.0	C
5	Proposed Depreciation Rate (%)	2.5	D
6	Current Depreciation Rate (%)	2.9	D
7			
8	Proposed Annual Depreciation Accrual	\$9,671	D
9	Current Annual Depreciation Accrual	\$11,218	D
10	Difference	<u>(\$1,547)</u>	

11

12 DISCUSSION

The Company recommends a net salvage ratio of 0% as approved in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI. Due to the high cost of removal, abandonment in place is the preferred method of retirement but not always possible. The majority of salvage is from billings from public accidents (cable cuts, trenching accidents) and requests from customers to relocate facilities on their property. Terminal salvage has been 16%. Projected reuse, facility relocations and public accidents make up the remainder of historical salvage. Cost of removal has averaged 137% historically.

The SPR program was used to determine the ASL as FIFO retirements are recorded in this account. The program produced a range of years between 40-52. The Company proposes a 37 ASL and R1.5 curve as the best fit for this account. This curve type is consistent with that approved in the aforementioned Order.

Line 368 - Line Transformers  
No

1	Estimated Depreciable Balance at 12/31/2002	\$363,287	A
2	Proposed Average Service Life	23.0	B
3	Proposed Remaining Average Service Life	13.1	C
4	Proposed Net Salvage Ratio (%)	(10.0)	C
5	Proposed Depreciation Rate (%)	4.6	D

00169

12 DISCUSSION

This is a mass account; thus, the SPR was run. The program was used to determine an ASL of 23 years. As previously stated, the FICO method of retirement tends to cause an overstatement of average service life; thus, a 23 year ASL with an R2.5 curve type is appropriate. This represents a slight reduction from the approved ASL of 24 years in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI.

An analysis of the account's reserve transactions generated a -10% net salvage ratio. Much of the salvage can be traced to reused material and facility relocations. Terminal salvage has averaged 6% and cost of removal 21%. Reuse and facility relocations are expected to represent 5% of the total salvage in future. The Company recommends a -10% net salvage ratio for this account.

6	Current Depreciation Rate (%)	4.9	D
7			
8	Proposed Annual Depreciation Accrual	\$16,711	D
9	Current Annual Depreciation Accrual	\$17,801	D
10	Difference	(\$1,090)	

Line 369.1 - Overhead Services

No

1	Estimated Depreciable Balance at 12/31/2002	\$81,109	A
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2	Proposed Average Service Life	39.0	B
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3	Proposed Remaining Average Service Life	28.0	C
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4	Proposed Net Salvage Ratio (%)	(50.0)	C
---	--------------------------------	--------	---

5	Proposed Depreciation Rate (%)	3.4	D
---	--------------------------------	-----	---

6	Current Depreciation Rate (%)	4.4	D
---	-------------------------------	-----	---

7			
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8	Proposed Annual Depreciation Accrual	\$2,746	D
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9	Current Annual Depreciation Accrual	\$3,569	D
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10	Difference	(\$823)	
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11

12 DISCUSSION

The SPR module of the DVS system was used to analyze this account. This program produced a range of 37-50 years with the tendency toward a longer, extended life. The Company chose a 39 year ASL utilizing the currently approved curve type of R1 (Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI).

A review of salvage and removal costs associated with retirements shows a -50% net salvage ratio. Of the total salvage, the majority is due to relocations, reconducting and reuse with terminal salvage of 41%. The Company recommends maintaining a -50% net salvage ratio as approved in the aforementioned Order.

1	Estimated Depreciable Balance at 12/31/2002		A
---	---	--	---

2	Proposed Average Service Life	37.0	B
---	-------------------------------	------	---

3	Proposed Remaining Average Service Life	28.0	C
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369.2 - Underground Services

Line

Progress Energy Florida Inc.  
 Plant Analysis by Function

6	Current Depreciation Rate (%)	4.9	D
7			
8	Proposed Annual Depreciation Accrual	\$16,711	D
9	Current Annual Depreciation Accrual	\$17,801	D
10	Difference	<u>(\$1,090)</u>	

12 DISCUSSION

This is a mass account; thus, the SPR was run. The program was used to determine an ASL of 23 years. As previously stated, the FIFO method of retirement tends to cause an overstatement of average service life; thus, a 23 year ASL with an R2.5 curve type is appropriate. This represents a slight reduction from the approved ASL of 24 years in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI.

An analysis of the account's reserve transactions generated a -10% net salvage ratio. Much of the salvage can be traced to reused material and facility relocations. Terminal salvage has averaged 6% and cost of removal 21%. Reuse and facility relocations are expected to represent 5% of the total salvage in future. The Company recommends a -10% net salvage ratio for this account.

Line 369.1 - Overhead Services  
 No

1	Estimated Depreciable Balance at 12/31/2002	\$81,109	A
2	Proposed Average Service Life	39.0	B
3	Proposed Remaining Average Service Life	28.0	C
4	Proposed Net Salvage Ratio (%)	(50.0)	C
5	Proposed Depreciation Rate (%)	3.4	D
6	Current Depreciation Rate (%)	4.4	D
7			
8	Proposed Annual Depreciation Accrual	\$2,746	D
9	Current Annual Depreciation Accrual	\$3,569	D
10	Difference	<u>(\$823)</u>	

11

12 DISCUSSION

The SPR module of the DVS system was used to analyze this account. This program produced a range of 37-50 years with the tendency toward a longer, extended life. The Company chose a 39 year ASL utilizing the currently approved curve type of R1 (Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI).

A review of salvage and removal costs associated with retirements shows a -50% net salvage ratio. Of the total salvage, the majority is due to relocations, reconditioning and reuse with terminal salvage of 41%. The Company recommends maintaining a -50% net salvage ratio as approved in the aforementioned Order.

Line 369.2 - Underground Services  
 No

1	Estimated Depreciable Balance at 12/31/2002	\$269,526	A
2	Proposed Average Service Life	37.0	B
3	Proposed Remaining Average Service Life	28.0	C

00171

PEF-RC- 017685

Progress Energy Florida Inc.  
Plant Analysis by Function

4	Proposed Net Salvage Ratio (%)	(10.0)	C
5	Proposed Depreciation Rate (%)	2.8	D
6	Current Depreciation Rate (%)	3.3	D
7			
8	Proposed Annual Depreciation Accrual	\$7,519	D
9	Current Annual Depreciation Accrual	\$8,861	D
10	Difference	<u>(\$1,342)</u>	

11

12 DISCUSSION

Over the last 10-15 years, this account has experienced rapid growth. The SPR Program produced a wide range of lives depending on the curve type chosen, 34-50 years. The account reflects retirements on a FIFO basis. An ASL of 37 years was chosen as the best fit for this account.

The reserve transactions support a net salvage ratio of -10%. The majority of the salvage credits to this account are a result of reimbursements due to the relocation or conversion of service at the customer's request or public accidents. Many of the relocations of service are a result of swimming pool construction; therefore, the cable was not abandoned. Terminal salvage has averaged 6%, while reuse and reimbursements are expected to be 15-20%. Net salvage is projected at -10%.

Line 370 - Meter Equipment  
No

1	Estimated Depreciable Balance at 12/31/2002	\$114,777	A
2	Proposed Average Service Life	25.0	B
3	Proposed Remaining Average Service Life	14.8	C
4	Proposed Net Salvage Ratio (%)	(10.0)	C
5	Proposed Depreciation Rate (%)	4.9	D
6	Current Depreciation Rate (%)	3.8	D
7			
8	Proposed Annual Depreciation Accrual	\$5,624	D
9	Current Annual Depreciation Accrual	\$4,362	D
10	Difference	<u>\$1,262</u>	

11

12 DISCUSSION

Included as a sub-account (370.1) of meter equipment is energy conservation equipment, which the FPSC allowed recovery over a five year period in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI.

The SPR program supports an ASL of 23-30 years. By analyzing the more recent years, the ASL is decreasing. As a result, the Company proposes decreasing the ASL from 28 to 25 years. The Company also proposes maintaining a P2 curve type as approved in the aforementioned Order.

The analysis of salvage and removal costs indicates a net salvage ratio of -10%. Cost of removal has averaged 13%, and, since there is little or no salvage value on retired meters, the Company recommends maintaining a -10% net salvage ratio as approved in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI.

Progress Energy Florida Inc  
 Distribution Analysis Function

5 Proposed Depreciation Rate (%)	5.5	D
6 Current Depreciation Rate (%)	8.0	D
7		
8 Proposed Annual Depreciation Accrual	\$12,120	D
9 Current Annual Depreciation Accrual	\$17,628	D
10 Difference	<u>(\$5,508)</u>	

11

12 DISCUSSION

This account has had rapid growth, with over \$100M being added in the last ten years. The Company proposes maintaining a R1 curve approved in Docket No. 971570-EI Order No. PSC-98-1723-FOF-EI

As this account retires on a FIFO basis, the SPR program was used to generate an ASL of 16-20 years. Since FIFO retirements tend to overstate the ASL, a life of 15 years was chosen as the best fit.

An analysis of removal costs and salvage credits support a net salvage ratio of -5% for the period 1976-2001.

- See Estimated 2002 Additions & Retirements Worksheet for Estimated Depreciable Balance.
- B - See Summary of Whole Life Rates & Mortality Curves Worksheet for Proposed Average Service Life.
- C - See Summary of Remaining Life Rates Worksheet for Proposed Remaining Average Service Life and Net Salvage Ratio.
- D - See Comparison of Depreciation Accruals Worksheet for Proposed Depreciation Rate, Current Depreciation Rate, Proposed Annual Depreciation Accrual and Current Annual Depreciation Accrual.

J:\RA160\00dpstdy\distribution\_analysis.xls\Sheet1

174. Regarding the reference to the future negative net salvage of 30% for Account 362-Station Equipment as referenced on page 4-36 of the Company's depreciation study, please specifically state the impact that such value had in the Company's request for a negative 15% net salvage. Further, identify all work papers, assumptions, considerations, and material reviewed and/or relied upon in sufficient detail to permit verification of the information provided.

Answer:

Determining future net salvage is both a quantitative and qualitative process. While the quantitative component of the process is a useful and important tool, it is only a starting point from which the depreciation professional must use his interpretative skills and years of experience to estimate the level of future net salvage for each of the property class.

For example, within the Company's historical net salvage data for Account 362-Station Equipment, the level of Gross Salvage has declined during the last several year's three year rolling bands, while the level of cost of removal has remained much more stable during the same period. Also, since the average age of the retirements of the property have been occurring at an average of only 15 years of age (approximately one third of average service life), the level of cost of removal is understated when considering the age at which future retirements will need to occur for the property to achieve the average service life of 45 years for the account.

The development of the forecasted future net salvage is an additional tool which is considered in developing the net salvage estimate. While it is anticipated that the ultimate future net salvage will approach negative 30 percent, conservatism suggests a more gradual movement in that direction.

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Jacob Pous has been furnished by electronic mail and U.S. Mail on this 13<sup>th</sup> day of July, 2005, to the following:

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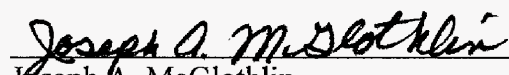
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