BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 050078-EI

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REBUTTAL TESTIMONY OF
RAY F. DESOUZA

On behalf of PROGRESS ENERGY FLORIDA

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REBUTTAL TESTIMONY OF
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I. Introduction and Purpose

Q. Please state your name.

A. My name is Ray De Souza.

Q. Did you submit Direct Testimony in this case on April 29, 2005?

A. Yes.

Q. Have you reviewed the intervener testimony of Jacob Pous filed on behalf of the Office of Public Counsel ("OPC"), of Sheree Brown filed on behalf of the Florida Retail Federation ("FRF"), and of Carl S. Vinson, Jr. and William "Tripp" Coston filed on behalf of the Florida Public Service Commission Staff (the "Staff Testimony")?

A. Yes.

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my rebuttal testimony is to respond to certain wholly unsupported arguments presented by Ms. Brown asserting that O&M expenses associated with various transmission initiatives should be reduced. In addition, I address the inferences in Staff's Testimony that Progress Energy Florida, Inc.'s ("PEF's" or the "Company's") transmission pole inspection programs are somehow less than adequate. Finally, like Mr. Bob Matthews' rebuttal testimony, I provide some real-world insight into our actual costs of removal of transmission equipment and

the amount of money, if any, we typically receive for the salvage value of that equipment.

II. Response to Ms. Brown's Recommended Adjustments to PEF's Proposed Transmission O&M Expenses

Q. Have you reviewed Ms. Brown's proposed reductions to PEF's requested O&M expenses at pages 43-45 of Ms. Brown's testimony?

A. Yes.

Q. Do you agree with Ms. Brown's recommendation that the Commission should reduce PEF's requested transmission O&M expenses by $2.189 million?

A. Absolutely not.

Q. Please explain why you disagree.

A. First, Ms. Brown claims that, on average, from 2002 through 2004, PEF only spent 81.2% of what it said it would spend in Docket No. 000824-EI on transmission O&M expenses, and only 72% of its proposed incremental transmission reliability initiatives over that same period. As Mr. Oliver states in his rebuttal testimony, the budget for specific transmission reliability programs identified by the Company (in Sarah Rogers' testimony) in Docket No. 000824-EI were based on an annual $5 million rate reduction and not on the annual $125 million rate reduction that PEF and the interveners, including Ms. Brown's client at that time, ultimately agreed to under the 2002 Settlement. The 2002 Settlement did not mandate the programs identified in Ms. Rogers' testimony and, beyond this, it is not reasonable

to think the Company could reduce revenue by almost $500 million over the term of the 2002 Settlement with no change in underlying spending. Based on the 2002 Settlement, PEF necessarily re-prioritized programs to focus on outage mitigation measures. Within that context, which Ms. Brown fails to mention in her testimony, PEF nonetheless spent $123 million from 2002 to 2004 on key distribution and transmission reliability initiatives over and above the normal, budgeted amounts. These initiatives are shown in Exhibit No. ____ (DO-1) to Mr. Oliver's direct testimony, and represent a very significant commitment to reliability and operational excellence. Ms. Brown's misstatement that the Company "overestimated" its transmission expenses in Docket No. 000824-EI is disingenuous and ignores the 2002 Settlement her client signed following the submittal of Mr. Rogers' initial testimony in that case.

Q. What other problems are there with Ms. Brown's recommended adjustments to PEF's proposed transmission initiatives?

A. Ms. Brown is an accountant. Ms. Brown has no experience in operating and maintaining an electric transmission system, is not competent to opine on what initiatives are appropriate, and appears to have undertaken no review of PEF's electric transmission system, were she even qualified to do so, to give any educated opinion as to the appropriateness of any transmission initiatives proposed by PEF. In essence, she calculates CTE spending as a percentage of the original, *as-filed*, reliability spending proposals in Docket No. 000824-EI and recommends that the Commission only approve the same proportion of this request. The 2002 Settlement renders the relationship between these two items absolutely

meaningless. Since Ms. Brown's premise is flawed, it should not have any bearing on this proceeding. My direct testimony, on the other hand, is based on my extensive experience operating and maintaining electric transmission systems and a detailed understanding of PEF's transmission system and its future needs.

III. Response to Staff Witnesses' Reliability Audit Findings

Q. In Messrs. Vinson's and Coston's joint testimony, they state that while PEF has conducted transmission pole inspections, it has not maintained its inspection schedule as outlined by management. Do you agree?

A. No I do not. As the Company indicated in its response to the Staff audit included in the Staff Testimony as Exhibit No. ____ (CV/CT-1), PEF internal procedure *Ground Patrol,* MNT-TRMX-00053, outlines the Company's policies for inspecting the transmission lines and facilities. The procedure states that these inspections are used to identify and correct deficiencies and to allow the Company to efficiently prioritize future needs. These inspections are visual inspections conducted from the ground with the linemen climbing pre-selected poles. The Company's target is to inspect its transmission system every 60 months. PEF internal procedure *Transmission Line/Substation Wood Pole Inspection and Groundline Treatment*, MNT-TRMX-00057 outlines the Company's policies for inspecting the quality of its wood poles and, if necessary, treating its wood poles to reduce future decay. The Company's procedures target a 10-year inspection cycle for its transmission wood poles.

Since 2001, the Company has dedicated four transmission line crews to inspecting and maintaining PEF's transmission lines. These crews are locally

based and have direct knowledge of the facilities within their maintenance area. These crews inspect and repair lines on a routine basis. In addition, they conduct aerial patrols three times per year to further inspect the transmission facilities. These efforts are conducted with the objective to provide safe and reliable service to PEF's customers and in accordance with the PEF policy MNT-TRMX-0000.

In recognition of the number of wood transmission poles in the queue for integrity inspections, PEF elected to prioritize its inspection efforts and resources to focus on this more critical task, with a resumption of more regular preventative maintenance treatment when the backlog of integrity inspections/repairs has been significantly reduced or eliminated. This kind of priority adjustment is consistent with the Company's inspection guidelines, which recognize the need for flexibility in scheduling inspections to account for system or resource constraints as they occur from time to time. Ultimately, the success of this approach should be judged by the results, and this strategy has reduced the Retail SAIDI due to pole failures from 0.22 in 2002 to 0.001 in 2004.

In conjunction with the increased inspections, the Transmission organization is implementing an asset management organization and philosophy wherein asset management records, activities, results and future activities are more efficiently coordinated. The transmission asset management effort is ongoing and being integrated with the maintenance organization. As discussed, PEF is in the process of adding work planners and schedulers in the transmission maintenance areas to develop work plans in support of the Company's inspection objectives.

PEF's reprioritization of its wood transmission pole inspections by reallocating resources from ground-line inspections to corrective maintenance has

benefited customers and improved reliability, and has not compromised the structural integrity, reliability, or safety of the Company's transmission poles.

IV. Cost to Remove Transmission Equipment and Salvage Values

Q. What do you understand to be Mr. Pous's principal concern with the Company's Depreciation Study?

A. It is my understanding that Mr. Pous is challenging the Company's projected costs of removal of certain electric transmission equipment as being too high, and the Company's projected salvage values for that equipment have been challenged as being too low. Based on my significant amount of field experience in transmission design, construction, and maintenance, and a good understanding of the real-world issues associated with the costs of removing equipment and the salvage dollars, if any, we receive when we remove various types of transmission equipment from service, I believe Mr. Pous is incorrect in his assertions.

Q. Are salvage values and removal costs consistent across the Company's various regions such that your examples would be representative for other parts of the service territory?

A. Yes. Both the costs to remove equipment and salvage values are rather consistent throughout the various regions in our service area. I have frequently analyzed engineering and cost data from across the service territory and we do not recognize any differences in these costs from one region to another. The processes that we use to remove the equipment are the same, and most of the issues that we would encounter are also very similar.

Q. What trends are you seeing in the costs of removing equipment?

A. Our costs are rising. The major cost component is labor and benefits, which have been steadily increasing over time. Given the long service lives of these assets, it is a virtual certainty that the costs of removal will be significantly higher than would be the case if we removed them all today. We have updated our estimates for labor within the last 3 years, and we continue to review our estimating tools with a view to updating labor cost.

Q. Are there any general comments that you'd like to make about salvage value as it pertains to transmission equipment?

A. In general, with regard to salvage values, we receive the scrap value when we retire transmission equipment. The second-hand market for 30 year old transmission equipment is very limited, or non-existent.

Q. Does this conclude your testimony?

A. Yes.