BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of Florida Power Corporation's Earnings, Including Effects of Proposed Acquisition of Florida Power Corporation by Carolina Power & Light

DOCKET NO. 000824-EI

Submitted for Filing:
February 11, 2002

REBUTTAL TESTIMONY
OF
SARAH S. ROGERS

ON BEHALF OF
FLORIDA POWER CORPORATION

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REBUTTAL TESTIMONY OF SARAH S. ROGERS

ON BEHALF OF FLORIDA POWER CORPORATION

I. Introduction and Background

Q. Please state your name.

A. Sarah S. Rogers.

Q. Did you submit Direct Testimony in the case on November 15, 2001.

A. Yes, I did.

Q. Have you reviewed the pre-filed testimony filed by witnesses sponsored by the Intervenors, the Office of Public Counsel ("OPC"), and Staff in this docket?

A. Yes.

II. Purpose and Summary of Testimony

Q. What is the purpose of the testimony you are filing at this time.

A. I am submitting testimony to rebut the pre-filed testimony of certain witnesses relating to my area of responsibility, Florida Power's Transmission System.

Q. Please summarize your rebuttal testimony.

A. All of the parties seem to agree that Florida Power's proposed transmission reliability initiatives are necessary and appropriate. Yet, some contend that these initiatives are designed to play "catch-up" for maintenance activities and capital investments that should have occurred before. To the contrary, Florida Power's transmission initiatives are designed to address issues arising from the transmission systems' natural life cycle. Moreover, they will help make sure that Florida Power will be able to meet its new reliability goals to achieve top-quartile performance levels when compared to other utilities across the country. Florida Power also expects that it is accomplishing these initiatives at lower cost than it could have previously, due to its combination with CP&L, which has given it more purchasing power.

Florida Power is committed to accomplishing these initiatives in a three-year time horizon. However, contrary to the conclusion of Publix witness Sheree Brown, Florida Power does not anticipate that its transmission O&M costs will drop-off significantly at that time. These initiative will simply be broadened in scope or replaced with equally important new initiatives.

In addition, Ms. Brown's suggested amortization of part of the transmission O&M budget is inappropriate. As explained in more detail below, Florida Power's budget reflects appropriate escalation and added monies for reliability initiatives that will be needed on an ongoing basis. Moreover, the merger synergies that are included (or netted out) of the transmission budget are real and have already been achieved in their entirety in 2001.

Thus, the Commission should establish rates based on the Company's original, accurate, MFR filing supporting its transmission-related expenses for the 2002 test year.

Q. Are you sponsoring any exhibits to your rebuttal testimony?

A. Yes, I am, as follows:

SSR-2 – Analysis of Transmission O&M expenses.

III. Transmission Reliability Initiatives

Q. In your direct testimony, you describe transmission reliability initiatives that the Company established as a part of the merger integration process. What do the Staff, OPC, and Intervenor witnesses have to say about these initiatives?

A. The witnesses who comment on Florida Power's transmission reliability goals all seem to agree with Florida Power that the goals are both necessary and appropriate. I believe this clearly reflects the Company's prudence in both evaluating and establishing its goals for the future.

Q. Certain witnesses suggest that Florida Power's transmission reliability initiatives appear to be playing "catch-up" for repairs or refurbishments that could have been accomplished in prior years. Is this a fair characterization of these initiatives?

A. No, it is not. Similar to a power plant, a transmission system and its components have natural lives, and Florida Power's system has simply reached a stage when Florida Power must commence and continue to take steps to refurbish or replace aging equipment.

In addition, the initiatives that we are proposing to undertake are aimed at achieving a higher level of transmission reliability than was contemplated by Florida Power prior to the merger. Florida Power's new management team intends to raise the level of Florida Power's reliability and performance from second-quartile to top-quartile electric-utility performance nationwide. Florida Power believes its customers are entitled to, and in fact are demanding, this new level of service and reliability. To this end, Florida Power is stepping up its investment in system reliability, and this enhanced commitment translates directly into the transmission initiatives identified in my direct testimony.

Q. Ms. Sheree L. Brown, a witness sponsored by Publix Supermarkets, suggests that the transmission initiatives could have been completed previously at lower costs. Is this true?

A. No, it is not. As a result of our merger, Florida Power was able to assume in its 2002 test-year budget that it could achieve the lower of the two prices being paid for component parts by CP&L or Florida Power, respectively, in estimating its costs. We expect to be able to implement our initiatives with the advantage of this purchasing leverage, which was not available to Florida Power as a stand-alone utility.

In addition, Ms. Brown's suggestion that the Commission engage in hind-sight speculation about whether something could have been done less expensively in the past is inappropriate. Florida Power's historic transmission maintenance approach was reasonable and well suited to customer needs and expectations at the time, and it permitted Florida Power to provide increasingly reliable service since the mid-‘90s in a fiscally conservative manner.

Florida Power's present transmission reliability initiatives are aimed at a higher goal and will permit the Company to move its performance into the top-quartile. Thus comparing the Company's approach prior to the merger with our post-merger initiatives is making an apples-to-oranges comparison.

Q. In your Direct Testimony, you describe Florida Power's commitment to accomplishing the identified transmission reliability goals over a three-year time horizon. Will Florida Power's O&M costs drop significantly after these initiatives are completed?

A. No. The level of O&M investment incorporated into the 2002 budget toward achieving these initiatives is characteristic of the type of investment Florida Power expects it must continue to make in its transmission system for years to come. It is correct that Florida Power is committed to completing the described initiatives over a three-year time horizon. However, Florida Power plans to broaden the scope of these initiatives or replace them with new, equally important reliability initiatives in later years. It is important to remember that Florida Power is not planning to make this increased O&M investment while continuing to provide the same level of reliability it has over years past. To the contrary, the increased O&M investment is designed specifically to enhance reliability for Florida Power's customers.

Q. Certain witnesses have concluded that the transmission reliability initiatives could have been established and accomplished even absent the merger. Does this fairly characterize the benefits the merger brought to the Company's transmission reliability initiatives?

A. No. This conclusion unfairly separates the resulting initiatives from the process that generated them and the new commitment to reliability that supports them. The transmission reliability initiatives described in my direct testimony were identified and developed as best practices arising out of the combination of the utilities. They are specifically designed to make it possible for Florida Power to achieve its post-merger goal of top-quartile performance. Undoubtedly, the Company's post-merger reliability commitment offers an extraordinary benefit to Florida Power's customers in the coming years.

Granted, it is not unreasonable to conclude that Florida Power would have taken the necessary steps (including doing some of the same things described in the transmission reliability initiatives) to continue to provide an average to above-average level of service to its customers. However, it does not follow that the merger brought no benefit or synergies to these initiatives. In addition to the enhanced reliability commitment that arose directly from the merger, the combination of the companies allows Florida Power to experience synergy savings in the implementation of those initiatives. For example, as I explained above, the collective purchasing power of CP&L and Florida Power – a merger synergy arising from economics of scale – directly reduces the costs of completing these initiatives to the benefit of Florida Power's ratepayers. In addition, as a result of the merger, and Florida Power's ability to benefit from the best practices of CP&L, the Company will be able to manage and improve its transmission system in a better, smarter, and more economic way than it could have done on its own.

Q. In her testimony, Ms. Brown expresses concern about the percentage increase in transmission O&M expenses. Does her analysis fairly portray these increases? If not, why not?

A. No, it does not. Ms. Brown uses various approaches throughout her testimony to put Florida Power's 2002 overall O&M expenses in the worst possible light and her discussion of transmission O&M expenses is no different. In order to demonstrate the unfairness of Ms. Brown's analyses, I have adopted a methodology similar to the one she used to attack Florida Power's distribution O&M expenses and prepared an analysis that demonstrates that Florida Power's 2002 transmission O&M expenses are right in line with where they should be.

To this end, as Ms. Brown did in SLB-2 for distribution O&M, I have adopted 1998 as the baseline year and used a Consumer Price Index ("CPI") inflator as shown on Exhibit SSR-2 to escalate that amount to 2002 dollars. I chose the CPI inflator because that is what the Commission uses. However, I do not expect there would have been much difference if a Gross Domestic Product ("GDP") inflator were used. In any event, this calculation results in a baseline budget of $27.7 million for O&M in 2002. Adding to that the cost of the transmission reliability initiatives discussed in my direct testimony – $9.7 million – and then subtracting the $1.5 million in realized synergy savings, I arrive at a "Brown" expected 2002 O&M budget expense of $35.9 million for transmission. This "Brown" expected 2002 O&M budget expense is actually $1.63 million more than Florida Power is seeking in the 2002 test year for rate making purposes. Clearly then, Ms. Brown's discussion of Florida Power's transmission O&M expenses is unfair and should be disregarded.

Indeed, in the end, Ms. Brown herself does not suggest that an adjustment be made to 2002 transmission O&M budget except to recommend improperly that the O&M expenses related to the transmission reliability initiatives be amortized as though they were capital expenses, which they are not.

III. Synergies

Q. Certain witnesses question whether the transmission O&M budget really includes the $1.5 million in synergies identified in the MFRs and your Direct Testimony. Will you actually achieve these synergy savings?

A. Yes. The transmission merger synergies are included (or more accurately stated "netted out") of the 560 FERC accounts for Transmission Operation Expenses. The synergy savings reflected in the 2002 test year break down as follows:

Labor and Benefits: $1.2 M (18 FTE's x $66.67K/year)

Labor reduction by Area:

Consolidated Transmission Staff: 5 FTE's

Internal Regional Transmission Maintenance Organization: 9 FTE's

Craft and Technical Training Department: 4 FTE's

Overhead: $40K

Overhead Savings by Area:

Consolidated Transmission Staff: $18K

Internal Regional Transmission Organization $22K

Other: $323K

Other Savings by Area:

Internal Regional Transmission Maintenance Organization: $ 252K

Craft and Technical Training Program: $ 71K

In 2001, Florida Power and CP&L consolidated their transmission organizations to the extent possible by eliminating redundant supervisory positions, engineering standards-development positions, and reliability-management positions. In addition, with the implementation of the intra-corporate regional transmission organization brought to Florida Power through the implementation of CP&L best practices, Florida Power was also able to eliminate supervisory positions by consolidating relay and substation maintenance functions under the same supervisors for given geographical areas. The Craft and Technical Training program synergies have also been achieved. The 2002 budgeted O&M does not include these eliminated costs. As a result, it incorporates the approximately $1.5 million in synergy savings identified in my Direct Testimony. These costs were real and have been eliminated as a result to the companies' combination to the direct benefit of Florida Power's customers.

Q. Do you expect to achieve additional synergy savings in the Transmission Organization in the future?

A. No. The Transmission Organization is pleased to have achieved the total expected level of synergy savings in this area of the Company during the first year following the merger.

Q. Do you expect additional transmission staff reductions during the 2002 test-year?

A. No, I do not. All of the positions Florida Power anticipated eliminating as a result of the merger were eliminated in 2001.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

FLORIDA POWER CORPORATION
ANALYSIS OF TRANSMISSION O&M EXPENSES REBUTTAL OF SLB
($ in millions)

Base Recoverable O&M - System Per Book

Actuals / **Forecast**	1998	1999	2000	2001	**2002**
Transmission	$ 22.90	$ 33.40	$ 30.10	$ 32.59	$ 34.30

1998 Transmission in 2002$ (1)	27.70
Reliability Costs	9.73
Merger-related Sysnergies	(1.50)
Test year adjusted transmission O&M expenses	35.93
Test year adjustment to revenue requirements	$ 1.63

(1) INFLATION AND GROWTH COMPOUND MULTIPLIER

1998	1.0000
1999	1.0451
2000	1.1035
2001	1.1571
2002	1.2110