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

NON-CONFIDENTIAL REBUTTAL TESTIMONY OF ROBERT A. SIPES

ON BEHALF OF FLORIDA POWER CORPORATION

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DOCUMENT NUMBER-DATE
01615 FEB 11 02

REBUTTAL TESTIMONY OF ROBERT A. SIPES

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I. Introduction and Background

Q. Please state your name.

A. Robert A. Sipes

Q. Did you submit Direct Testimony in this 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. I primarily reviewed the testimony of Ms. Sheree L. Brown, who filed testimony on behalf of Publix, Ms. Donna DeRonne, who filed testimony on behalf of OPC, Mr. R. Earl Poucher, who filed testimony on behalf of OPC, and Mr. James E. Breman, who filed testimony on behalf of the Commission Staff. I also reviewed the testimony of Mr. James E. Breman, filed on behalf of the Commission Staff in the Gulf Power rate case, Docket 010949.

II. Purpose of Testimony

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

A. I am submitting this testimony to rebut the pre-filed testimony of the witnesses I previously identified.

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

A. Yes. I am submitting an number of exhibits which I have listed below:

RAS-2	A regional comparison of Florida Power's reliability performance to other utilities in the Southeast (Figures 1-6) (Confidential)
RAS-3	A 1999 national comparison of Florida Power's reliability performance to other utilities across the Country (Figures 1-6) (Confidential)
RAS-4	A 2000 national comparison of Florida Power's reliability performance to other utilities across the Country (Figures 1-6) (Confidential)
RAS-5	A 2000 comparison of the FRCC with other NERC reliability regions across the Country (Figures 1-6) (Confidential)
RAS-6	Underground Cable Installation timeline.
RAS-7	Rebuttal of Ms. Brown's SLB-2 regarding Distribution O&M expenses.

III. <u>Florida Power's Distribution Service Reliability</u>

Q. Certain witnesses comment on Florida Power's electric service reliability. Has Florida Power been providing reliable service to its customers?

A. Yes, it has. As Commission Staff witness James E. Breman describes, the reliability of Florida Power's distribution service has steadily improved since the mid-1990's and is generally good at this time. This trend is evidenced directly by the reliability indices charts filed as exhibit JEB-1 to Mr. Breman's testimony. Notably, JEB-1, Figure 1, demonstrates that Florida Power has markedly improved its System Average Interruption Duration Index ("SAIDI") statistics. This statistic reflects the average number of minutes that a Florida Power customer is without electric service on an annual basis. Likewise, these charts clearly show that Florida Power reliability has also improved when measured by the System Average Interruption Frequency Index ("SAIFI") and Momentary Average Interruption Frequency Index ("MAIFIe"). See JEB-1, Figures 2 and 4.

Q. Given its significant achievement in the last five years, does Florida Power intend to continue to enhance its distribution reliability?

A. Yes, it does. Although, Florida Power is very pleased that it has been able to achieve such significant improvements in its distribution reliability in a relatively short period of time while maintaining a very conservative level of investment in its distribution system, Florida Power plans to continue to improve its distribution reliability to meet rising customer expectations. As I explained in my Direct Testimony, as a part of the merger process, Florida Power determined that it should establish new goals aimed at achieving top-quartile reliability performance when compared to other electric utilities across the country. To this end, Florida Power established the Distribution Reliability Initiatives I described in my Direct

Testimony. Florida Power realizes that customers in the new millennium are placing increasing demands on Florida Power's electric distribution system and have rising expectations. Florida Power is committed to make the necessary investment to achieve this new level of reliability performance.

Q. Mr. Poucher describes Florida Power's service reliability as the worst in the State based on a comparison with Florida Power and Light, TECO, and Gulf Power. Is this a fair characterization of Florida Power's reliability performance?

A. No, it is not for several reasons. Mr. Poucher has narrowly focused on three of Florida Power's year 2000 performance figures for distribution reliability performance, comparing them only to other Florida IOUs. Mr. Poucher ignores Florida Power's Customer Average Interruption Duration Index "CAIDI" and Customers with greater than five outages "CEMI5" performance and also fails to make any comparisons to electric utilities outside the State of Florida. It is not appropriate for Mr. Poucher or the Commission to pass judgment on Florida Power's reliability performance without looking at all of the reported distribution reliability indicators and without comparing Florida Power with utilities outside the State.

Notably, Florida Power's 2000 CAIDI score beat those of FP&L and Gulf Power. JEB-1 (Figure 3). Similarly, Florida Power's 2000 CEMI5 score is better than that of FP&L, the only other utility that is presently capable of reporting this

statistic. CEMI5 is the number of customers experiencing greater than 5 outages on a percentage basis. JEB-1 (Figure 5).

Regional Comparison

Looking at some of these same reliability performance indices, SAIDI, SAIFI, and CAIDI, and comparing them to the reliability performance levels of other utilities in the Southeast, the Commission will note that Florida Utilities compare favorably. BEGIN CONFIDENTIAL.

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END CONFIDENTIAL. This level of reliability is right in line with Florida Power's pre-merger approach to reliability and conservative levels of investment and clearly demonstrates that Florida Power has indeed achieved a fair level of performance reliability.

National Comparison

Similarly, BEGIN CONFIDENTIAL

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Moreover, the Commission should be pleased to discover that utilities in the FRCC compare favorably with utilities in other reliability regions across the Country as well. BEGIN CONFIDENTIAL.

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Q. Are there any other clarifications that should be made concerning Florida Power's reliability performance in comparison with Florida's other IOUs?

A. Yes. I would also like to point out that the SAIDI number being reported to the Commission by TECO for the year 2000 may not be compared with SAIDI numbers of other Florida IOUs. This is because TECO is still measuring SAIDI manually and has not put the technology in place to measure the actual outage minutes on its system. The shortcomings of manual SAIDI reporting are nationally recognized. In the December 2001 issue of Transmission & Distribution World an article written by Richard E. Brown and Mike W. Marshall of ABB Consulting reports "utilities reporting high levels of reliability may be using manual-outage reporting that does not capture interruption data as comprehensively as an automated outage management system." Transmission & Distribution World, December 2001, *"The Cost of Reliability"* by Richard E. Brown and Mike W. Marshall, ABB consulting.

Indeed, the shortcomings of manual outage reporting are reflected in Gulf Power's negative SAIDI trend appearing in Mr. Breman's JEB-1 (Figure 1). Prior to 1999 Gulf Power reported SAIDI based on its manual collection of outage data. Accordingly, in 1997 and 1998, Gulf Power's SAIDI numbers appear very low. In 1999, Gulf Power began utilizing an automated outage management system that more accurately recorded actual outage duration data. As a result, Gulf Power's SAIDI appears to increase significantly and interestingly closely mirrors Florida Power's SAIDI in 1999 and 2000. Left unexplained, this fact makes JEB-1 (Figure 1) and the 2000 SAIDI scores reported by Mr. Poucher from the same June 2001 Staff Internal Affairs Report potentially misleading. Lastly, I would also note that manual reporting affects CAIDI and SAIFI data as well.

Winter Park

Q. **Mr. Poucher also comments on the reliability complaints heard by the Commission during the Winter Park service hearings. Does Florida Power face special reliability challenges in the Winter Park area?**

A. Yes, it does. I will be the first to admit that Florida Power faces special reliability challenges in the Winter Park area. This is caused in part by the tree canopy that Winter Park maintains for aesthetic purposes. Even under normal conditions trees present reliability challenges. As the Commission knows, the State of Florida has experienced drought conditions for the past several years. Drought conditions translate into weakened trees and cause more branches to fall unexpectedly, which can lead to outages. In a treed area like Winter Park this, in turn, translates into increased reliability issues. In addition, treed areas also tend to encourage a greater population of squirrels or other small wildlife. These creatures can cause additional outages as well.

To address this, in part, Florida Power plans to install spacer cable that will allow some limbs to fall on the line without causing an outage. Florida Power has also recently converted selected feeder segments to underground feeders. Florida Power's plan in this regard strategically balanced the greater expense of undergrounding with the reliability benefit that can be achieved.

Florida Power will also be installing automatic sectionalizing devices which will allow many of these tree limbs to brush or graze a line without causing an extended outage. Through these activities, Florida Power plans to bring

Winter Park reliability back in line with the level of service reliability Florida Power's other customers have enjoyed and will continue to experience.

Tropical Storm Gabrielle

Q. OPC witness Mr. Poucher is also critical of Florida Power's and CP&L's collective reliability restoration response to Tropical Storm Gabrielle. How did Florida Power's performance in responding to the outages produced by Gabrielle compare to other affected Florida IOUs?

A. I am pleased to say that Florida Power restored the power of its customers before either FP&L or TECO. Indeed, Gabrielle hit Florida on Friday and Florida Power's customers had their power restored by Sunday. The same cannot be said for FP&L customers and TECO customers. The Sarasota-Herald Tribune reported on Wednesday, September 19, 2001, that FP&L was still working to restore power to all of its customers and asked for residents' continued help to locate outages that still remained. I am personally aware that Florida Power restored power to its customers before TECO because Florida Power provided work crews to TECO to help speed its restoration efforts.

Q. Certain witnesses claim that the assistance of CP&L crews who aided in Florida Power's restoration effort was not all it was cracked up to be due to the inability of CP&L crews to communicate effectively with Florida Power's crews. Is this a fair characterization of the assistance that was received?

A. No, it is not. Florida Power was able to restore power more quickly than the other utilities only because of the able assistance of CP&L crews from North and South Carolina. It is true that Florida Power had not completed the conversion of its truck radio system to allow for the seamless communication with CP&L crews that will be achieved in the future, but the impact of this issue was grossly exaggerated. First of all, every one of the Florida IOU's whose service territory was affected by the storm hired additional contract crews to help address power outages. These outside resources do not have direct radio contact with the hiring utility. Indeed, as I already indicated, TECO hired Florida Power crews to help it complete restoration of service to its 75,000 customers (based on newspaper reports) who lost power. Florida Power only sent these crews, however, after its crews and CP&L crews had restored power for Florida Power's 400,000 customers who lost power as a result of the storm. Second, Florida Power and CP&L radio compatibility will be completed by the end of 2003, which will only further enhance Florida Power's ability to respond quickly to storm-related outages like those caused by Gabrielle. It is not reasonable to expect that this would have been completed just nine months into the merger.

In addition, I think it is worth noting that CP&L has won numerous awards for its ability to respond quickly and to restore power after a major storm. The experience gained by FPC based purely on its combination with CP&L in this area will continue to work to the benefit of Florida Power's customers in the future.

Q. If Florida Power responded so quickly to storm damage, why did the reliability complaints to the Commission rise so significantly in September following Gabrielle?

A. I think the answer is two-fold. First of all, Florida Power was utilizing a brand new outage management system that was electronically providing restoration times to Florida Power customers and Florida Power's customer service representatives. Although these restoration times were accurate approximations in the event of an isolated outage, they were not adjusted for storm response conditions where the Company was facing numerous outages across the system. According to Mr. Poucher's testimony, inaccurate restoration estimates was the basis of most of the complaints. As soon as Florida Power realized that its new system was providing normal outage restoration times (not adjusted for storm conditions) and was not capable of manual manipulation by field personnel, it disengaged this part of the system and manually reset the database restoration times to accurately recite restoration periods on a community by community basis.

Since that time, Florida Power has worked directly with the outage management system vendor to modify the technology to permit Florida Power's field personnel to alter restoration estimates manually in the event of another major storm. Thus, the problem should not occur again.

Second, I suspect Florida Power's customers were especially sensitive to how the Company would respond to a large outage situation following the merger. Change is always a little unsettling and although the merger will produce

great benefits for Florida Power's customers, it is not surprising that they reacted strongly to this unfortunate hiccup in the initial restoration time estimates.

Q. Overall, is Florida Power's distribution reliability continuing to improve?

A. Yes, it is. I am pleased to report that based on preliminary numbers Florida Power expects to report improving scores for SAIDI, SAIFI, CAIDI, MAIFIe and CEMI5 from 2000 to 2001. I am particularly pleased to note that Florida Power's System Average Interruption Duration will have dropped from 100.6 minutes in 2000 to 89.7 in 2001, an improvement of 11 %. This achievement moves Florida Power well towards the goal I identified in my Direct Testimony to reduce SAIDI by 20%. I fully anticipate that the distribution reliability initiatives I described in my Direct Testimony will get us the rest of the way there.

Q. Given the foregoing discussion of Florida Power's steadily improving reliability, and the comparison of Florida Power's reliability to other utilities across the Country is there any basis for the Commission to impose the recommended three year return on equity penalty recommended by Mr. Poucher?

A. Absolutely not. As explained in detail above, Mr. Poucher's recommendation is unsupported by the real facts surrounding Florida Power's historic and present reliability. Mr. Poucher inappropriately relied on only three reliability indicators reported by Florida IOUs in the year 2000, and then failed to view Florida IOUs on a southeastern or national basis before incorrectly concluding that Florida

Power's reliability was below par. To the contrary, as I have demonstrated, Florida Power's year 2000 reliability is above average when compared to utilities in the Southeast and across the nation and in line with Florida Power's pre-merger reliability goals.

Mr. Poucher's discussion also focused narrowly on year 2000 data, ignoring the fact that Florida Power's reliability has steadily improved over the last five years, and as I just indicated, continues to show improvement in 2001. Moreover, Florida Power is appropriately addressing areas of special concern. In the same vein, Mr. Breman directly states that "in general, FPC's distribution service is good." Therefore, a penalty aimed at punishing "bad" reliability service would be unwarranted and inappropriate.

Moreover, as I will discuss in greater detail below, Florida Power is not pursuing distribution reliability initiatives (and transmission reliability initiatives for that matter) to recover from "poor" reliability service as Mr. Poucher suggests. To the contrary, we are pursuing these measures to take Florida Power from above-average reliability to top-quartile reliability, in line with management's post-merger goals. Once again, this is not cause for concern but for applause. There is nothing about Florida Power's reliability initiatives that should result in the kind of unprecedented penalty Mr. Poucher proposes or any penalty for that matter.

Finally, the Gulf Power case relied on by Mr. Poucher offers no support for his position. In Docket 891345-EI, Order No. 23573, the Commission imposed a two year 50 basis point penalty on Gulf Power's rate of return on

equity as a result of criminal and unethical conduct of one of its Vice Presidents that the Commission determined Gulf Power's management knew or should have known about and yet failed to take appropriate measures to correct. More specifically, Gulf Power's vice president engaged in criminal activity that resulted in Gulf Power's entry of guilty pleas to two felony counts in the United States District Court for the Northern District of Georgia, Atlanta Division. In the case, Gulf Power was accused of "systematically, repeatedly, and willfully instruct[ing] its outside vendors, such as advertising agencies, to submit false or inflated invoices to Gulf Power Company for payment by Gulf Power Company in order to reimburse those vendors for payments they had made to political candidates and others at the direction of Gulf Power Company." These serious criminal acts are not even remotely comparable to any issue being considered by the Commission in this case.

IV. Staff's Reliability "Initiative" Proposal

Q. In his Direct Testimony, Staff witnesses Breman suggests that, without reliability "initiative" type oversight Florida Power (along with the other IOUs) will not continue to make the necessary investment and improvements to ensure that its distribution reliability will keep improving. Is this an accurate conclusion?

A. No, it is not. To begin with, as to all the IOUs it appears that the Commission's enhanced reporting requirements in and of themselves have caused Florida's IOUs to give the necessary attention to reliability issues. As discussed above,

reliability in the FRCC compares favorably with reliability in other NERC reliability regions, and reliability complaint levels are generally down. So, I do not believe that any additional "incentive" is necessary.

This is especially true for Florida Power. As I have previously explained, following the merger the new management of Florida Power Corporation determined to make a bold new commitment to enhancing both transmission and distribution reliability. Florida Power is now seeking to achieve top-quartile performance in its provision of electric service to its customers. This commitment is clearly reflected in the distribution reliability initiatives described at RAS-1, attached to my Direct Testimony.

Q. Do you agree with Mr. Breman that Florida IOU's should not wait for increasing customer complaints to address reliability issues.

A. Absolutely. That is why Florida Power has internally committed to improving its SAIDI score by 20 percent through the implementation of the distribution reliability initiatives I described. Florida Power realizes that customers are placing increasing demands on Florida Power's distribution system and at the same time expecting a higher level of reliability. Florida Power's internal reliability goals are specifically designed to meet these rising customer expectations, and Commission imposed goals are thus unnecessary when present reliability reporting standards are accomplishing the desired result.

Q. Yes, but Mr. Breman claims that the Commission cannot rely on Florida Power's (or any utility's) internal reliability goals because they are typically tied to financial performance, creating a disincentive to make expenditures that would increase distribution reliability. Is this true at Florida Power?

A. I am not entirely familiar with the internal Company compensation incentives pre-dating the merger. However, I can tell you that this is absolutely not true of Florida Power's post-merger employee compensation incentive program. Allow me to explain further. Florida Power's employee compensation incentive program balances budget-oriented financial goals with reliability goals in the same way its balanced scorecard approach determines what reliability initiatives to implement. Put another way, the dollars included in the incentive program are not all tied to financial goals, and they are not all tied to reliability goals. Perhaps most importantly to Mr. Breman's way of thinking, they are also not dependant on one another. An employee can obtain incentive compensation based on the Company's achieving its internal reliability goals even if the Company does not achieve its financial goals. Thus, Florida Power's approach negates Mr. Breman's primary justification for recommending direct Commission intervention into Florida Power's reliability planning.

Q. As an additional basis for his proposal, Mr. Breman states that Florida Power has not complied with the National Electric Safety Code, citing photos taken by PSC Safety Engineer, Costas Panagiotopoulos, attached as Exhibit JEB-3. Has Florida Power investigated Mr. Breman's assertion?

A. Yes, immediately upon receiving the Staff's testimony, Florida Power investigated each location identified by Mr. Panagiotopoulos.

Q. What did Florida Power discover?

A. Florida Power was able to locate eight of the nine locations depicted in the photos and agrees that these specific locations require remediation. However, based on its observations at these locations and its review of historical maintenance schedules, Florida Power has concluded that a majority of the issues identified by Staff's photos exist as a result of its vegetation management contractor failing to properly cut or spray vines in accord with the parties' agreement. Florida Power has contacted the contractor and is working with them to clear vegetation at these locations immediately.

Q. Is Florida Power planning to take additional steps to make sure that can maintain effective compliance with the National Electric Safety Code going forward?

A. Actually, Florida Power put a program in place to do just that immediately following the merger. At that time, Florida Power determined that it was appropriate to begin an inspection program designed to follow behind the vegetation management contractor and make sure that Florida Power's vegetation management program was being properly implemented. To this end, Florida Power hired 12 line and service inspectors who inspect the work in progress and the completed work of the vegetation management contractor's crews.

Q. When will the inspectors have completed an inspection of the entire system?

A. Florida Power estimates that it will take one entire tree-trimming cycle – three years – to complete the inspection of the entire system. However, in the meantime, Florida Power is addressing rapid growth situations immediately as they are discovered.

Q. In his testimony, Mr. Breman indicates that in response to a Staff data request, Florida Power indicated that it would cost $8.2 million to stay in continual compliance with the National Electric Safety Code. Is this accurate.

A. Not entirely. The $8.2 million identified in that data response is the exact amount of Florida Power's annual O&M "tree trimming" expenses. As noted above, Florida Power's vegetation management program is on a three year cycle. Put another way, Florida Power's program addresses 1/3 of its system each year on a rotating basis. However, this is not all the money Florida Power spends to address vegetative management issues. Florida Power has also spent about $3.1 million in the last year addressing rapid growth demand trimming that may cause problems between cycles and has budgeted that amount to address demand trimming in the 2002 test year. These additional funds are appropriate and necessary in addition to the $8.2 million identified in the data response. Moreover, as I just described, Florida Power has also added an inspection program consisting of 12 inspectors and that cost is also necessary to achieve

Florida Power's goal of effective compliance with the National Electric Safety Code.

In addition, it is important for me to point out that Florida Power's goal is to achieve effective compliance with the National Electric Safety Code. I am not certain what Mr. Breman means by "continual compliance", but would emphasize that it would be impossible for Florida Power to know that it was in 100% compliance with the Code at any given moment in time. Thus, its goal is "effective compliance," meaning to conduct cyclical tree trimming and demand trimming in compliance with the Code and have an effective inspection program in place to make certain that this goal is being achieved.

Q. Does Florida Power believe that the measures you have described will remedy situations like those appearing in the photos taken by the Commission Staff?

A. Yes, it does.

Q. Does Mr. Breman describe any other basis for his conclusion that a Commission imposed reliability performance goal is necessary?

A. Mr. Breman appears to suggest that Florida Power's stable or declining O&M investment in vegetation management generally from 2001 to 2002 is some cause for concern.

Q. Do you agree with Mr. Breman's suggestion that Florida Power's O&M investment in vegetation management is stable or declining?

A. No. As explained above, Florida Power's vegetation management investment has actually been about $3.1 million greater than the $8.2 million cyclical tree trimming costs I believe Mr. Breman is referring to in his testimony. For the 2002 test year, Florida Power budget already includes $3.1 million in demand trimming on top of the $8.2 million for cyclical trimming, and in addition, is putting forward an additional $1.6 million in O&M expenses as reflected in its maintenance reliability initiatives. See RAS-1. Thus, Florida Power is already working diligently to find an equilibrium in the area of vegetation maintenance and additional oversight is unnecessary.

Q. Mr. Breman also makes the point that the Commission should not choose between reliability initiatives for utilities. Do you agree with this statement?

A. Yes, I do. Florida Power's balanced score-card approach to setting reliability initiatives should give the Commission great comfort that Florida Power has evaluated its goals in terms of cost and effectiveness. Florida Power, like the Commission, is interested in seeing that its customers get the most bang for their buck.

Q. Given the foregoing, do you believe that it is necessary in Florida Power's case for the Commission to engage in "incentive" oversight of Florida Power's reliability?

A. No, I do not. The Commission's own new Mission Statement clearly reflects the PSC's goal is to move towards reduced regulatory involvement in the oversight of all utilities. Mr. Breman's "incentive" program is a step away from achieving this goal, not towards it. Although, admittedly, the Commission's Mission Statement discusses the idea of incentive-based regulation, what Mr. Breman describes can hardly be described as an incentive. To the contrary, it is at best an ill-conceived penalty.

Q. Please explain the basis for your conclusion that what Mr. Breman proposes is really a penalty as opposed to an "incentive."

A. Mr. Breman proposes that the Commission set a certain CEMI5 reliability standard for Florida Power and then take money away in the form of residential customer rebates if Florida Power does not meet it. However, Mr. Breman's proposal is not balanced with an up-side incentive should Florida Power perform better than the standard set by Commission. An "incentive" with no up-side is more appropriately described as a penalty. The imbalance of this reliability rebate program is also logically inconsistent with Mr. Breman's suggestion that it is established based upon an expectation of "average" performance. An "average" canotes a range of permissible performance, with instances occurring above and below the mean, not an absolute criterion like the one Mr. Breman proposes. This is irreconcilable.

Q. **Are there other problems with Mr. Breman's proposal apart from the fact that it does not evenhandedly penalize under-achievement and reward over-achievement?**

A. Yes, there are several other problems with Mr. Breman's proposal. First, Mr. Breman's proposal is tied to a single reliability initiative, CEMI5. As discussed above, CEMI5 is the reliability indicator that describes on a percentage basis the total number of utility customers that have experienced greater than 5 outages in a given annual period. Although Florida Power agrees that CEMI5 is one appropriate measure of reliability, it does not standing alone provide a complete reliability picture. A utility could enhance its CEMI5 number by focusing its reliability initiatives in densely populated areas where an outage is likely to affect a greater percentage of its customers, while ignoring reliability in the out-lying areas. Thus, Mr. Breman's proposal would actually incent Florida Power (and other utilities if subjected to a similar standard) to discriminate against some customers in favor of others.

Second, Mr. Breman's proposal does not include exceptions for extraordinary circumstances that could unfairly impact a utility's CEMI5. For example, a year with an unusual number of lightning strikes in a geographic area that cause repeated outages. Notably, according to the Commission's own recently published lightning audit, Florida Power's service territory has the highest lightning density in the United States.

Third, Mr. Breman chooses Florida Power's CEMI5 goal based subjectively by choosing a number that he believes Florida Power is capable of

achieving. And, although he claims that the goal is designed to result only in average performance, he chooses a CEMI5 never before achieved by Florida Power Corporation based on reliability initiatives designed to permit Florida Power to achieve top-quartile performance. He also recommends this goal without providing the Commission with a basis to compare the 1.5 percent CEMI5 goal he recommends for Florida Power with the CEMI5 performance of average performing utilities in the Southeast or in the country. Thus, there is no way to determine whether the 1.5 percent goal is reasonable or whether any particular goal is reasonable for that matter.

Q. Does the Commission's consideration of Mr. Breman's proposal in the context of Florida Power's rate case as opposed to a rulemaking proceeding give you cause for concern?

A. Yes, it does. The Commission has traditionally dealt with each of the Florida IOUs in an even-handed manner. By addressing this issue in Florida Power's rate case, the Commission could potentially deviate from this practice. Indeed, there is no justification for establishing different reliability standards or goals for different IOUs in the state, and the Commission should avoid doing so by considering Mr. Breman's penalty proposal – if at all – in a proper rulemaking setting in which all of the IOUs could weigh-in on the decision.

Q. Can you offer any evidence that Florida Power is actually at risk of being treated differently from the other IOUs if the Commission considers Mr.

Breman's proposal in the context of Florida Power's rate case as opposed to a rule-making proceeding?

A. Yes, I can. I have reviewed Mr. Breman's testimony in the Gulf Power rate case, which recommends a penalty program similar to that recommended for Florida Power with two very important differences. First, his recommendation in the Gulf case accounts for the fact that Gulf, unlike Florida Power, does not presently have the ability to report CEMI5. Thus, he recommends delayed implementation of the penalty program for Gulf Power while recommending immediate implementation of the penalty program for Florida Power. This penalizes Florida Power for staying ahead of the curve in its efforts to monitor reliability. Worse yet, is the second difference between the Gulf Power penalty proposal and the Florida Power penalty proposal. Mr. Breman proposes a 1.5 percent CEMI5 goal for Florida Power and only proposes a 2 percent CEMI5 goal for Gulf Power. This alone suggests that the Commission should not be considering this issue on a utility-by-utility basis in the context of a rate proceeding. This kind of policy decision should come to the Commission (if at all) through a rulemaking.

V. <u>Florida Power's Distribution Reliability Initiatives</u>

Q. Turning to the issue of Florida Power's Distribution Reliability Initiatives described in your Direct Testimony, please summarize what the Intervenors, Staff, and OPC had to say about whether Florida Power should move forward with these initiatives.

A. I am pleased to report that all of the witnesses who comment on our initiatives seem to agree that they are both necessary and appropriate. This consensus is clear evidence that Florida Power's post-merger balanced scorecard approach to evaluating and establishing distribution reliability goals described in my Direct Testimony is contributing to good decisions.

Q. **Certain witnesses claim that the distribution reliability initiatives you describe in RAS-1 consist of plans to repair and refurbish antiquated parts that arise out of the Company's failure to keep up with maintenance of these facilities. Is this true?**

A. No, it is not. To the contrary, Florida Power's distribution reliability initiatives including its cable replacement program, its pole inspection program, its transformer inspection program, and others are proactive, forward-looking initiatives, that will prevent problems (i.e., failures and outages) before they occur. Please allow me to provide some examples:

Underground Cable Replacement Program

Florida Power's underground cable replacement program is specifically designed to address the approximately 30 year life-cycle of these cables before they begin to cause problems on Florida Power's system. Some history will shed light on the proactive nature of this initiative. Florida Power did not begin installing significant amounts of underground cable on its system until the early 1970s. Following this, however, the amount of underground cable installed in FPC's system grew each year for the next 30 years. Attached to my testimony as

RAS- 6 is a graph that shows the increasing amount of underground cable installed on Florida Power's system on a cumulative basis.

This underground cable has a natural 30-year life-cycle. As this cable continues to age and reach the end of its useful life, Florida Power anticipates that failures will increase significantly if the Company does not move forward with its planned capital initiative that is designed to replace the cable before these failures occur. The timing of this initiative is driven, quite simply, by the cables' coming of age. Indeed, Florida Power expects that increased capital expenditures for cable replacement will continue to be required in years to come. It is only logical, given the passage of time, that Florida Power will have to begin to replace or refurbish the underground cable systematically beginning with the cable installed nearly 30 years ago.

Transformer Replacement Initiative

Similarly, Florida Power also installed an increasing number of pad-mounted transformers over the last 30 years and needs to begin to address transformer aging issues as well. To complicate matters, the recent increase in irrigation with reclaimed water in Florida Power's service territory has begun to cause transformers to rust prematurely. Thus, although Florida Power has begun to experience increased transformer failures, it was not as a result of neglect or failed maintenance. Rather it was a natural outgrowth of aging transformers in a changing environment. Realizing this, Florida Power instituted a transformer

inspection program two years ago to address these issues. Florida Power's distribution initiative relating to transformers is intended to enable Florida Power to expedite this process, which in turn will assist the Company in achieving its enhanced reliability goals.

In similar ways, each of the distribution reliability initiatives identified in my Direct Testimony is designed to address reliability issues proactively toward achieving Florida Power's commitment to enhanced reliability across its system.

VI. Distribution O&M and Synergy Savings

Q. In her testimony, Ms. Brown describes a concern about the increasing level of the 2002 test year distribution O&M expenses and performs an analysis and schedule (SLB-2) that results in a recommendation that the distribution O&M budget be reduced by $15 million. Is her analysis accurate?

A. No, it is not.

Q. Please explain why Ms. Brown's analysis is inaccurate.

A. Certainly. In order to demonstrate the errors in Ms. Brown's analysis, I have adopted her methodology using the same Gross Domestic Product ("GDP") inflators that she did and prepared my own analysis shown in RAS-7. This is not to say that we agree that the use of a GDP inflator is appropriate. To the contrary, the Commission's use of CPI-U is more appropriate. Nonetheless, I have used

GDP here to permit the Commission to compare my analysis at RAS-7 with Ms. Brown's analysis at SLB-2.

To begin, I assumed the same amount of escalated expense for 2002 as indicated in Ms. Brown's SLB-2; $ 85.7 million, which is her average of 1999 and 2000 expenses in 2002 dollars with customer growth. I then proceeded to make appropriate adjustments to this amount. As Ms. Brown did, I first adjust this amount upward by $1,956,000 to add back the benefits loading to reflect the 2001 accounting change. I also then subtract out the $5.5 million in synergy savings, which as I demonstrate in detail below are real savings experienced by the Company.

Then, I proceeded to make additional appropriate adjustments that Ms. Brown failed to make, as explained below:

- Reliability Initiatives – Add $7 million. Contrary to Ms. Brown's conclusion, these reliability initiatives did not replace D2K.
- Computer leasing versus purchase in prior years – Add $3 million. Florida Power changed its practice of purchasing computers and began leasing them. As a result, there is an increase in O&M (off-set by a reduction in the depreciation of capital expenses).
- Facilities enhancements and increase in facilities maintenance – Add $2 million. These expenses did not appear in the 1998 budget.

- Telecommunications cost appropriately functionalized to the distribution budget – Add $4.3 million. These expenses were previously reflected in A&G.
- Reconnect/Disconnect-CONP Serv in 1998 to FERC Acct # 90330, but budgeted in FERC Acct #586 in 2002 – Add $1.5 million. This amount was inadvertently budgeted in the 2002 distribution account, when it should have been assigned to customer account expenses as it was in 1998. Thus, the adjustment is necessary to compare these years.

After making these necessary adjustments, I recalculated the "Brown" expected O&M budget for 2002 which then totaled $99.9 million -- $2.8 million more than the $97.1 million Florida Power has included in the 2002 test year. In short, using 1998 as a baseline, Florida Power's 2002 test year budget, properly adjusted using Ms. Brown's own methodology, shows $2.8 million in additional savings flowing back to Florida Power's customers even after the reliability initiatives are added. This should be cause for applause, not concern.

Q. Ms. Brown also claims that the increase in O&M in 2002 suggests that the $5.5 million in synergy savings attributed to distribution in Mr. Myers' testimony will not be achieved or will be lost as a result of the O&M spending in distribution. Is this true?

A. No, it is not. First of all, the distribution merger synergies are real and are included as part of (or more accurately netted out of) the 580 FERC accounts. Detail on how this amount was determined is as follows:

Labor and Benefits: $3.2M (39 FTE's x $82.05K/year)

Labor Reduction by Area:

Consolidate Distribution Staff: 10 FTE's

Improve Service Delivery Process: 12 FTE's

Metering Personnel Reductions: 4 FTE's

Craft & Technical Training Dept.: 4 FTE's

Executive Synergies: 3 FTE's

C/I/G Synergies: 6 FTE's

Non-Labor: $2.3M

Consolidate Distribution Staff: $77K

Improve Service Delivery Process: $257K

Capitalization Policy: $1.3M

Metering Personnel Reductions: $12K

Craft & Technical Training Dept.: $118K

T&D Material Synergy: $100K

C/I/G Synergies: $500K

These are real savings that benefit Florida Power's customers as a result of the combination of the combination of the companies. Notably, in 2001 Florida Power and CP&L consolidated the organizations that provide staff support to the

distribution regions. Virtually all staff functions were consolidated including power quality, reliability and planning, distribution technology systems support and distribution contract management. The most significant staffing reductions were in the ranks of management and supervision as well as administrative support. While there were also reductions in technical support staff, these reductions were minimal. Another synergy initiative that resulted in staff reductions was the reduction of metering personnel. As part of the integration planning, it was determined that the planning and marketing efforts for metering and information services would be handled by a single entity. This permitted additional staff reductions. The non-labor components of the synergy savings resulted primarily from contract labor reductions not counted as staff reductions. In addition, there were also efficiencies in material costs and usage that translated into cost savings for Florida Power.

As to Ms. Brown's second supposition, it is absolutely wrong to conclude that because O&M costs in the distribution area are increasing over year 2000 costs that the benefits of the merger are lost. To the contrary, the synergy benefits of the merger help to off-set the necessary increase in O&M spending that is necessary to permit Florida Power to achieve the new levels of reliability that Florida Power customers are demanding. It is important to remember that Florida Power's 2002 budget reflects Florida Power's enhanced commitment to move the Company from average reliability to top-quartile reliability. Florida Power is spending more – yes – but Florida Power's customers will get even more in the way of increasing reliability.

Q. Ms. Brown notes that you indicated in deposition that additional personnel will have to be hired to implement the reliability initiatives negating at least some of the synergies arising out of the merger. Is this an accurate characterization of the synergy savings and/or the additional hires you suggested would be made to support the reliability initiatives?

A. No, it is not. Ms. Brown's is unfairly mixing apples an oranges. The merger synergies are cost savings based on a reduction in Florida Power's distribution budget as it existed prior to the merger. These savings are fully reflected in the 2002 budget. On the other hand, the additional hires will be needed in the future to support Florida Power's enhanced reliability goals. These additional employees are not being hired to take positions eliminated as a result of the merger. They are being hired to fulfill the Company's post-merger commitment to achieve top-quartile reliability. Thus, Ms. Brown's matching of one with the other is inappropriate and factually wrong.

Q. Ms. Brown also argues that much of the savings could have been achieved absent the merger. Is this accurate?

A. No. As described above, much of the synergy savings in the distribution area were achieved by reducing personnel at a management level or through the implementation of best practices learned as a result of the merger. Just looking at the categories of savings makes it clear that these could not have been accomplished absent their merger. BEGIN CONFIDENTIAL.

REDACTED

REDACTED

END CONFIDENTIAL.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

REDACTED

FIGURES 1 – 6

ARE CONFIDENTIAL

REDACTED

FIGURES 1 – 6

ARE CONFIDENTIAL

REDACTED

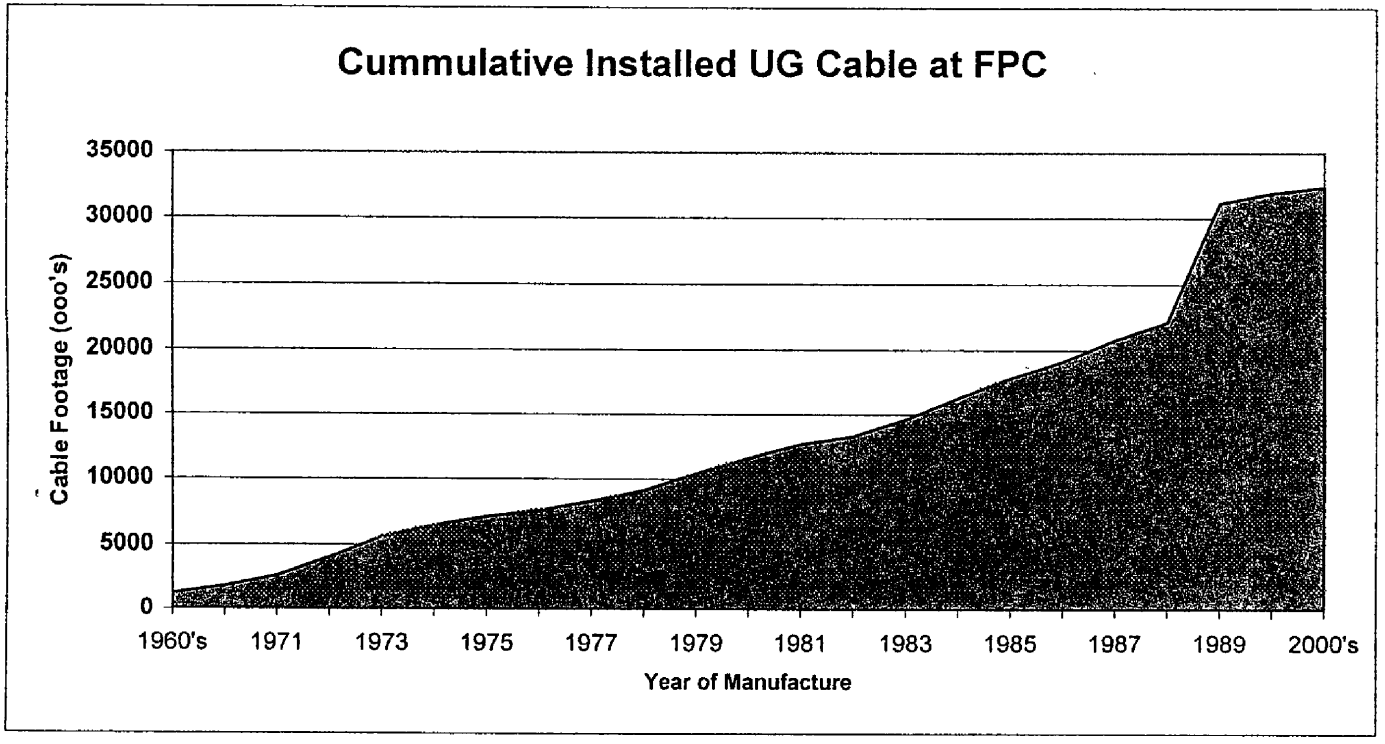
FIGURES 1 – 6

ARE CONFIDENTIAL

REDACTED

FIGURES 1 – 6

ARE CONFIDENTIAL


Cummulative Installed UG Cable at FPC
35000
30000
25000
20000
15000
10000
5000
0
Cable Footage (ooo's)
1960's
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
2000's
Year of Manufacture

FLORIDA POWER CORPORATION
DISTRIBUTION O&M EXPENSE ANALYSIS REBUTTAL OF SLB-2

Line	FERC	Description	1998 Actuals	1999 Actuals	2000 Actuals	2002 Budget
1		**Distribution Expense per C-12:**				
2						
3	580 - 589	Distribution Operations	37,082	49,270	51,282	67,726
4						
5	590 - 598	Distribution Maintenance	29,134	27,373	25,961	29,444
6						
7						
8						
9		Total Distribution Expense	$ 66,216	$ 76,643	$ 77,243	$ 97,170
10						
11						
12						
13						
14						
15		Average 1999 and 2000 expenses in 2002 dollars with customer growth **				85,712
16		Add back benefits loading to reflect 2001 accounting change **				1,956
17		Less merger-related synergies **				(5,500)
18		Distribution Reliability Initiatives from direct testimony of Robert Sipes - Did not replace D2K				7,000
19		Computer leasing Vs purchase in prior years. Offset in depreciation expense.				3,000
20		Facilities enhancements and increase in facilities maintenance				2,000
21		Telecommunication costs appropriately functionalized in Distribution from A&G				4,300
22		Reconnect/Disconnect-CONP Serv coded in 1998 to FERC Acct #90330 but budgeted in FERC Acct #586 in 2002				1,500
23						
24		Test year adjusted distribution O&M expenses				99,968
25						
26						
27						
28		Test year adjustment to revenue requirements				2,798
29						
30						
31						
32		** Per Exhibit SLB-2				