BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Approval of Storm Cost Recovery Clause for Extraordinary Expenditures Related to Hurricanes Charley, Frances, Jeanne, and Ivan

DOCKET NO. 041272-EI
Submitted for filing: November 24, 2004

DIRECT TESTIMONY OF JEFF LYASH

ON BEHALF OF PROGRESS ENERGY FLORIDA

BONNIE E. DAVIS
Deputy General Counsel
PROGRESS ENERGY SERVICE COMPANY, LLC
106 E. College Avenue, Ste. 800
Tallahassee, FL 32301-7740
Telephone: (850) 222-8738
Facsimile: (850) 222-9768

GARY L. SASSO
Florida Bar No. 622575
JAMES MICHAEL WALLS
Florida Bar No. 0706272
JOHN T. BURNETT
Florida Bar No. 173304
CARLTON FIELDS, P.A.
Post Office Box 3239
Tampa, FL 33601-3239
Telephone: (813) 223-7000
Facsimile: (813) 229-4133

FPSC DOCKET NO. 041272-EI

IN RE: PROGRESS ENERGY FLORIDA, INC.'S PETITION FOR APPROVAL OF STORM COST RECOVERY CLAUSE FOR EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES CHARLEY, FRANCES, JEANNE, AND IVAN.

DIRECT TESTIMONY OF JEFF LYASH

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, employer, and business address.

A. My name is Jeff Lyash. I am employed by Progress Energy, Inc. ("Progress Energy"). My business address is 100 Central Avenue, St. Petersburg, Florida 33701.

Q. Please tell us your position with Progress Energy, and describe your duties and responsibilities in that position.

A. I am Senior Vice President of Energy Delivery-Florida. I am responsible for overseeing all aspects of energy transmission and distribution in Florida.

Q. Please summarize your educational background and employment experience.

A. I graduated with a bachelor's degree in mechanical engineering from Drexel University in 1984. Prior to joining Progress Energy, I worked with the Nuclear Regulatory Commission in a number of capacities. In 1993, I joined Progress Energy, and spent eight years at the Brunswick Nuclear Plant in Southport, North Carolina, ultimately becoming Director of Site Operations. In January 2002, I assumed the position of Vice President of Transmission/Energy Delivery in the

Carolinas. On November 1, 2003, I was promoted to Senior Vice President of Energy Delivery-Florida, which is the position I currently hold.

II. PURPOSE OF TESTIMONY

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

A. I am testifying on behalf of Progress Energy Florida, Inc. ("PEF" or the "Company") in support of the petition for approval of the extraordinary level of O&M expenses incurred by the Company on behalf of customers caused by Hurricanes Charley, Frances, Ivan, and Jeanne. My testimony will generally describe the Company and our strong performance during the unprecedented 2004 hurricane season to provide prompt restoration of electric service following each of these storms. I will introduce the Company's other witnesses who will describe in detail the Company's preparation for and response to the 2004 hurricane season, the extraordinary storm-related costs incurred by the Company, and the operation, impact, and benefits of the Storm Cost Recovery Clause that PEF proposes.

Q. Do you have any exhibits to your testimony?

A. Yes. I am sponsoring the following exhibits to my testimony:

JL-1 Map of 2004 Hurricane Tracks.

JL-2 2004 Hurricane Summary Impacts.

These exhibits were prepared under my direction, and each is true and accurate.

III. INTRODUCTION OF THE COMPANY'S PROPOSAL.

Q. Please generally describe the Company.

A. PEF is an investor-owned electric utility company that serves approximately 1.5 million retail customers in our service area in Florida. Our service area comprises approximately 20,000 square miles in 35 of the state's 67 counties, encompassing the cities of St. Petersburg and Clearwater and densely populated areas surrounding Orlando, Ocala, and Tallahassee. PEF supplies electricity at retail to approximately 350 communities and at wholesale to about 21 Florida municipalities, utilities, and power agencies in the State of Florida.

Q. What impact did Hurricanes Charley, Frances, Ivan, and Jeanne have on your customers' electric service?

A. These four hurricanes struck our service territory during a short period of time between August 13 and September 25 of this year. Exhibit ___ (JL-1) to my testimony shows the path and intensity of each storm through our service territory. Exhibit ___ (JL-2) to my testimony summarizes the impacts of the 2004 hurricanes.

Hurricane Charley struck first throughout much of our service territory causing a peak customer outage of 502,000 customers or 32.7% of our total number of customers. All customers capable of receiving power were restored within nine days. We estimate the total costs for Hurricane Charley to be $146 million.

Hurricane Frances struck next on September 4th, again with widespread impacts on our service territory. At the peak, 832,898 customers lost power, which is 54.4% of our total number of customers. All customers capable of receiving power

were restored within six days. We estimate the total costs for Hurricane Frances to be $128.6 million.

Hurricane Ivan made landfall on September 16th near Gulfshores, Alabama. At the peak, 8,891 customers in five counties we serve lost power during that storm, or .6% of our total customers. All customers capable of receiving power were restored within two days. We estimate the total costs for Hurricane Ivan to be $5.7 million.

Finally Hurricane Jeanne struck on September 25th. At the peak, 722,012 customers in 33 of our 35 counties lost power, or 47% of the total number of our customers. All customers capable of receiving power were restored within five days. We estimate the total storm-related costs for this hurricane to be $86.2 million.

Over this short period of time we experienced over 2 million cumulative customer outages.

Q. How did the Company respond to the hurricanes?

A. The Company performed well in response to these hurricanes. Progress Energy is a recognized leader in this area, particularly as a result of our restoration efforts after recent ice storms in the Carolinas. We have won the Edison Electric Institute Emergency Response Award four times since the program's inception six years ago. We are the only company to receive this award four times.

Our obligation to provide reliable and adequate electric service includes the duty to have a comprehensive storm response plan for managing recovery from major disasters, including hurricanes that could strike our customers and service territory.

The obligation to serve also includes the duty to implement that plan well in the event disaster does strike.

We have a comprehensive storm plan that reflects the cumulative wisdom and best practices of both PEF and our sister utility in North Carolina. We rapidly absorbed lessons learned and improved our plan and our execution of the plan with each of the storms we experienced this year.

Q. Please describe your storm plan.

A. Our plan is comprehensive in that it covers all phases and aspects of our response to storms. This includes everything from pre-storm preparation to post-storm restoration. It includes operations, logistics and support, customer service, support to local and state governments' emergency response activities, communications, and more. Specific plans are in place for Generation, Energy Control Center ("ECC"), Transmission, and Distribution. Some highlights are as follows:

- Generation and ECC

I would like to briefly address Generation and ECC since Distribution and Transmission will be described in more detail by other witnesses. Our generating units maintain storm plans specifying conditions under which we are able to continue operating or must ramp down our units. In advance of a storm, we constantly monitor anticipated storm tracks and conditions, taking any necessary actions to protect our generating units, and other operations. Throughout this process, procedures are followed to coordinate any potential ramp-downs and subsequent start-ups with our ECC.

Our ECC plays a critical coordination role prior to, during, and after a storm. In addition to coordinating with our generating units, our ECC monitors the status of our electrical grid and helps to orchestrate transmission and distribution restoration priorities for maximum system stability and restoration efficiency. At the same time, our ECC stays in contact with the Florida Reliability Coordinating Council and other interconnected utilities to ensure maximum coordination from a statewide perspective.

- Organizational Structure

Our plan defines an organizational structure for managing storm damage restoration that is in many cases different from our day-to-day operating structure. The storm response structure has centralized control of overall mobilization, staging of crews, logistics support, and damage assessment. The plan defines key roles and responsibilities of those who work in the storm center as well as employees working in support roles. Our organizational structure and storm response plans allow our local field offices to focus entirely on restoration of service and customer service.

- Communication

We have learned that communication is a critical component of successful storm restoration. Our plan encompasses proactive advertising and media communication of public awareness and safety messages before, during, and after the storm; working with the media to provide customers with estimated times of restoration; communicating directly with individual customers; and communicating with local, county, and state officials to keep them informed of our activities.

- Anticipation and Preparation

Our storm response efforts begin well before a storm strikes our service territory. We use a staged response to approaching storms that keys off tropical storm force winds reaching our service area. The first high winds can be hundreds of miles and hours ahead of landfall of the eye of a storm. At 72 hours, we evaluate potential needs, check our materials, and place manpower on alert. At 48 hours, our alert status goes up a notch and we begin to mobilize company and outside resources as dictated by the scope and path of a storm. At 24 hours, we refine our mobilization to the latest weather forecasts and ensure that we are as ready as we can be for the impending damages and outages. At this stage we are mobilizing inside and outside resources that we expect to need for damage repair, we staff up to storm levels at our customer call center, and we call up our employee volunteers in important restoration support roles such as customer calls, staging and logistical assistance, damage assessment, and guiding out-of -town crews.

Given the geographic breadth and back-to-back nature of this summer's hurricanes, we were forced to go to extraordinary measures to compete for resources that were stretched thin. We called on help from Progress Energy Carolinas, resources from the Southeast Electric Exchange, and even went to the West Coast to secure manpower in the case of Hurricane Jeanne. Moving resources into position was made difficult due to Florida's relatively isolated geography and the fact that other areas of the Southeast were battling remnants of the prior storm as we were preparing for the next storm.

- Damage Assessment

Damage assessment is one of the most critical steps in restoration. It is important to take time to learn how extensive the damage to our system is and where it is so that we can deploy our resources most efficiently during actual restoration. The goal of this phase is to validate resource needs and establish restoration times. We have a corporate damage team that tackles this challenge, using all available technology from customer outage call mapping devices to helicopters flying the transmission lines and the hardest hit areas.

- Restoration

Where possible, restoration begins in parallel with damage assessment efforts. Our goal is to restore service to as many customers as quickly and safely as possible – starting with the transmission system and working through the distribution system – and resources are allocated with that objective in mind. We give first priority to facilities needed to ensure public health and safety as well as critical public infrastructure.

- Sweep

Once initial restoration work is accomplished, we conduct a system sweep. We visually assess every part of the entire system to identify items that were damaged during the storm but were not critical for initial restoration.

Q. How well did the Company execute its plan?

A. We executed our plan well and got better with each storm. One of the main measures we use to judge our performance is the degree to which we met our estimated storm restoration times. We base our initial storm restoration estimates on a blend of

damage assessment model predictions, projections of resources that will be available to us, and our local operational knowledge and experience. These estimates are publicly available and we view them as our commitments to our customers. On the whole, we achieved excellent performance either meeting or exceeding these estimates. Beyond this, we were able to quickly apply lessons learned to improve our performance from storm to storm.

Q. Please describe your communication effort in more detail.

A. Our communication effort with our customers began before the storm with messages related to awareness, customer preparation, outage reporting instructions and safety. It was important for us to reinforce key messages with our customers including safety, home preparation, and personal preparations in the event of a sustained power outage. It was also important that we communicate to local government our preparedness, confirm contact information and critical needs, and provide information that they utilize in responding to their constituents.

Our internal readiness included staffing up to maximum levels in our call centers to be able to respond to the tremendous number of calls received. We have three state-of-the-art Customer Service Centers -- two Florida locations in Clearwater and Lake Mary as well as one North Carolina location in Raleigh. Normally we would have 250 customer service representatives handling calls 24 hours a day, seven days a week. During the storms we had over 425 associates just dedicated to handling outage calls. Customers want to know that we're aware they are without power and when we will have service restored. Our customers want and expect us to

be able to tell them when their power will be restored to their home or business. Our system accepts outage reports and provides time of restoration estimates on an automated basis. Estimated restoration times are updated as frequently as new information becomes available. In addition, our system puts any customer who requests it in touch with a live representative and provides follow up calls to all customers who request them. The total call volumes during the storms were:

- Hurricane Charley: 502,000 peak customer outages/465,670 customer outage calls
- Hurricane Frances: 832,898 peak customer outages/ 929,228 customer outage calls
- Hurricane Ivan: 8,891 peak customer outage/ 55,700 customer outage calls
- Hurricane Jeanne: 722,012 peak customer outage/ 741,920 customer outage calls.

As you can see from these numbers, handling customer outage calls is an important component of storm management.

In addition to one-on-one customer communications, we had an extensive communication effort with the public and the media. A storm communication media center was operated 24 hours a day, 7 days a week to meet all media needs. We conducted daily press briefings and worked hard to provide all media in our service territories all the information needed to keep the public aware of on-going safety issues and restoration efforts. In addition to the daily briefing, members of the press were included in tours of damaged areas as well as our storm management centers. Information updates on restoration efforts were provided at set intervals four times a day, scheduled around normal broadcast news times.

Another major component of our communication effort during a storm is providing updates and liaisons to a variety of local and state officials with storm

management responsibilities. This group of officials includes emergency operations personnel in each county and the state emergency operations center as well as local county and municipal government officials, the Public Service Commission and Staff, legislative members and their staffs, and executive branch officials and staff. In advance of each storm, Progress Energy developed a comprehensive staffing plan with a team of representatives assigned to each region to communicate proactively and daily with counties and municipalities to support their emergency response efforts, provide information and address local issues. As a part of this effort, Progress Energy assigned a professional with access to operational resources to each county Emergency Operations Center as well as the state Emergency Operations Center. This allowed us to provide needed information and respond to critical issues as quickly as possible. The communication with these groups was definitely a two-way street and we were impressed with the consistent message from all levels of government to get power restored to as many customers as quickly as we could.

The total cost for communication for the four storms was $3.6 million and is included in the total O&M expenses of $251.9 million.

Q. Please explain why the Company filed its Petition seeking recovery of a portion of the storm-related costs.

A. We experienced unprecedented levels of damage from the four hurricanes that struck PEF's service territory, resulting in a total cost of $366 million. Capital expenditures account for $54.9 million of that total. The remaining $311.4 million is O&M storm related expenses. The Company has a Storm Damage Reserve for O&M expenses

associated with storm damage. Customers support the Reserve through base rates; at the end of this year the value of the Reserve will be $46.9 million. However, the Reserve was not designed to cover all levels of damage since it would be too costly to do so. The Storm Damage Reserve will bring the total O&M costs of the storms down to $264.5 million. Of this amount $251.9 million is allocated to our retail customers. We are here today to ask the Commission to approve a mechanism for the recovery of the Company's prudent and reasonable O&M storm-related costs of $251.9 million. These are the O&M expenses, net of the Storm Reserve that we incurred to promptly restore service to our customers after each of the storms. We did a good job of promptly, efficiently, and safely restoring electric service to our customers. We believe that recovery of these expenses over a two year period on a dollar for dollar basis through a clause mechanism would be fair to customers and shareholders. We will not make a profit for the amount recovered under our two year proposal.

The $54.9 million in storm-related capital expenditures allocated to the Company's retail jurisdiction will be reported in surveillance reports and absorbed in current rates until the Company's next base rate adjustment.

Q. Has the Company's storm-related work been completed?

A. No. Recovery from storms has two distinct phases. First our effort is solely focused on restoring service to our customers as quickly as we can consistent with safety standards for our customers and employees. Once that restoration work is accomplished, we turn our focus to ensuring the ongoing reliability of the

transmission and distribution systems. That work is still underway and is due to be completed by 2nd quarter 2005. We estimate the total cost for "sweeps" work to be $11 million; that amount is included in the total recovery of $251.9 million.

Q. Has the Company experienced other impacts as a result of the hurricanes?

A. Yes. The financial community has been monitoring our hurricane experiences and the impact they have on the Company. They are interested to know the status of cost recovery of our expenses incurred as a result of the storms and how quickly PEF will recover these expenses. We believe it is in everyone's best interest to resolve any regulatory uncertainty about that as soon as can reasonably be done.

Q. Is the Company's cost recovery proposal consistent with its regulatory obligations and fair to the Company's customers?

A. Yes. Our proposal is consistent with our obligation to provide adequate, reliable electric service to our customers. It is our duty to plan for storms, to execute our plan when storms strike, to restore service as quickly as we can in a safe manner that protects the public, our customers, and our employees and contractors. We fully realize that electricity plays a critical role in the lives of our customers and that it is our duty to promptly restore electric service. We also realize the critical need to support county and municipal efforts to provide emergency response by assuring that restoration of power to critical electric infrastructure occurs as quickly as possible. We believe that we fulfilled that duty during the four hurricanes that struck our customers during the 2004 hurricane season. We kept careful and conscientious track

of our storm-related expenses. We did not temper our restoration efforts because of a concern that cost recovery would not be forthcoming. We have met our obligations under the regulatory compact; the Commission should permit the prompt recovery of our reasonable and prudent storm-related costs.

Q. What does the Company propose to do in the future to respond to storm damage?

A. So far, 2004 has been an unprecedented hurricane season. We will continue to look at the adequacy of the storm damage reserve and the likelihood of additional storms over the next few years. We will continue to report to and work with the Commission to make sure that our storm responsiveness continues to be excellent.

Q. Will you please introduce the Company's other witnesses in this proceeding?

A. In addition to my testimony, the Company is sponsoring these additional witnesses:

David McDonald: Mr. McDonald will describe the Company's storm plan for its distribution system, explain the Company's storm preparation efforts, response, and restoration efforts before, during, and following the four hurricanes of the 2004 hurricane season, and describe the damage to the Company's system as a result of the hurricanes.

Sarah Rogers: Ms. Rogers will likewise describe the Company's storm plan for its transmission system, explain the Company's storm preparation efforts, response, and restoration efforts before, during, and following the four hurricanes of the 2004

hurricane season, and describe the damage to the Company's system as a result of the hurricanes.

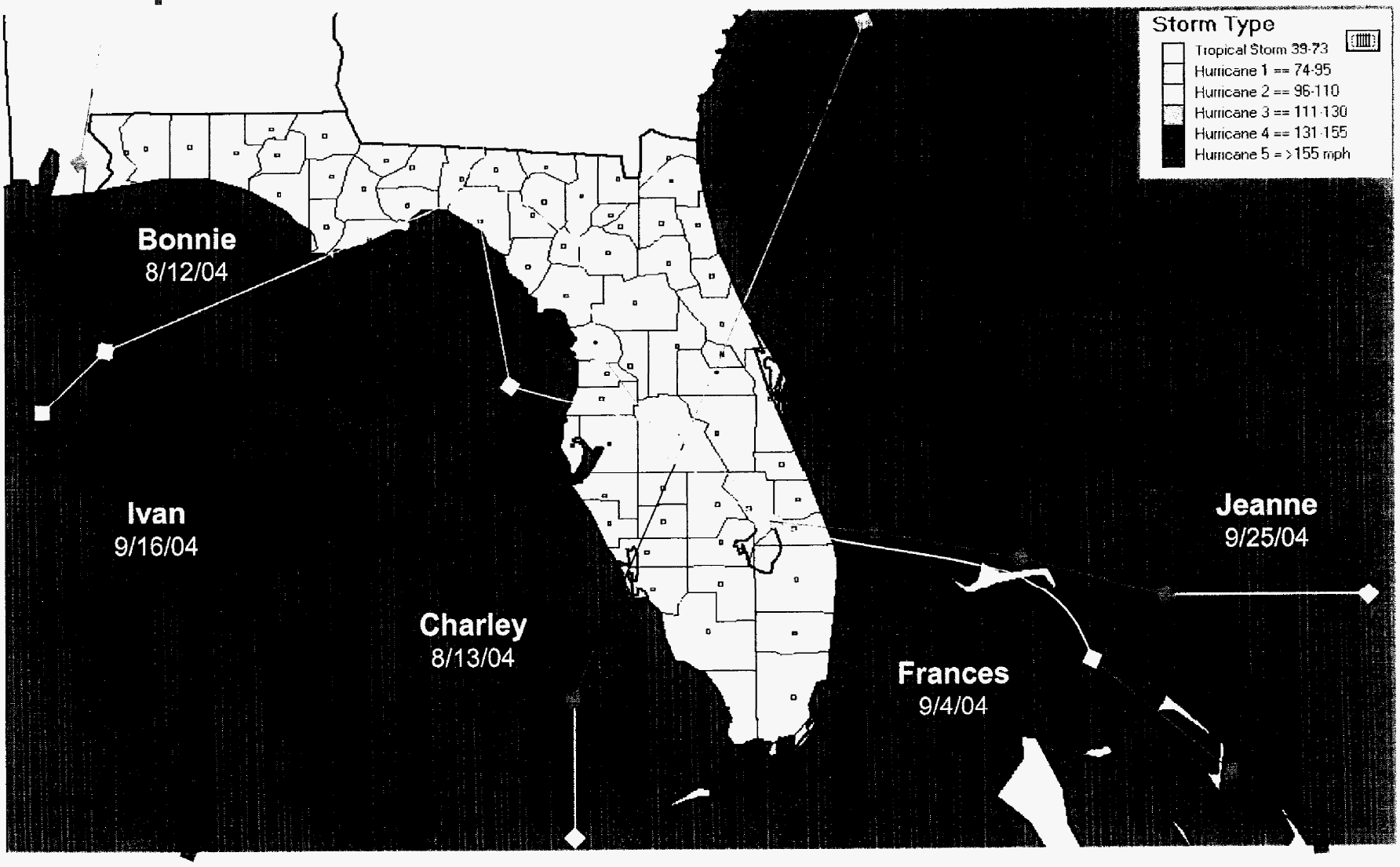
Mark Wimberly: Mr. Wimberly will explain how storm-related costs were estimated and tracked for the four hurricanes, explain how the storm-related costs are accounted for, and testify to the Company's total storm-related costs.

Javier Portuondo: Mr. Portuondo will explain the Company's Storm Cost Recovery Clause proposal, describing how the Storm Cost Recovery Clause will work, what the storm cost recovery factors are, and what the impact to the typical residential customer bill will be. He will also explain why a Storm Cost Recovery Clause is the most appropriate recovery mechanism for the Company's extraordinary storm-related costs from Hurricanes Charley, Frances, Ivan, and Jeanne.

Q. Does this conclude your testimony?

A. Yes.

Map of 2004 Hurricane Tracks



2004 Hurricane Summary Impacts

	Charley	Frances	Ivan	Jeanne
Landfall	August 13	September 4	September 16	September 25
Winds @ Landfall (mph)	145	105	130	120
Peak Number Customers Out	502,000	832,898	8,891	722,012
% of Customers	32.7%	54.4%	0.6%	47%
Customer outage calls handled	465,670	929,228	55,700	741,920
Days from start to restoration	9	6	2	5
Cost	$146.0M	$128.6M	$5.7M	$86.2M