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February 9, 2005

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

Docket No. 041272-EI, In Re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Dear Ms. Bayó:

On January 31, 2005, Office of Public Counsel filed the direct testimony and exhibits of Michael J. Majoros Jr., together with a copy of Progress Energy Florida's (PEF) Notice of Intent to assert that portions of the filing are confidential.

PEF has since designated the portions of Mr. Majoros testimony that it regards as confidential. Office of Public Counsel has redacted the material in a "public version" of Mr. Majoros' testimony and exhibits. I enclose the original and fifteen copies of the "public version" for filing and appropriate distribution.

Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

Sincerely,

Joe McGlothlin

Joseph A. McGlothlin
Associate Public Counsel

JAM/pwd
cc: Parties of Record

CMP ___
COM 5
CTR
ECR ___
GCL 1
OPC ___
MMS ___
RCA ___
SCR ___
SEC 1
OTH ___

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing **PUBIC VERSION** of the Direct Testimony of Michael j. Majoros, Jr. has been furnished by hand delivery(*), and U.S. Mail on this 9th day of February, 2005, to the following:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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 /	Docket No. 041272-EI Filed: February 9, 2005

DIRECT TESTIMONY

OF

MICHAEL J. MAJOROS, JR.

ON BEHALF OF

THE CITIZENS OF THE STATE OF FLORIDA

PUBLIC VERSION

DIRECT TESTIMONY

OF

MICHAEL J. MAJOROS, JR.

DOCKET NO. 041272-EI

I. Introduction

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

A. My name is Michael J. Majoros, Jr. I am Vice President of Snavely King Majoros O'Connor & Lee, Inc. ("Snavely King"), an economic consulting firm located at 1220 L Street, N.W., Suite 410, Washington, D.C. 20005.

Q. Please describe Snavely King.

A. Snavely King was founded in 1970 to conduct research on a consulting basis into the rates, revenues, costs and economic performance of regulated firms and industries. The firm has a professional staff of 15 economists, accountants, engineers and cost analysts. Most of its work involves the development, preparation and presentation of expert witness testimony before Federal and state regulatory agencies. Over the course of its 33-year history, members of the firm have participated in more than 1,000 proceedings before almost all of the state commissions and all Federal commissions that regulate utilities or transportation industries.

Q. Have you prepared a summary of your qualifications and experience?

A. Yes. Appendix A is a summary of my qualifications and experience. It also contains a tabulation of my appearances as an expert witness before state and Federal regulatory agencies.

Q. At whose request are you appearing?

A. I am appearing on behalf of the Florida Office of Public Counsel ("OPC").

Q. What is the purpose of your testimony?

A. The Office of Public Counsel requested that I review Progress Energy Florida's ("Progress", "PEF" or "the Company") proposed storm cost recovery claims; to express an opinion regarding the reasonableness of Progress' claims; and, if warranted, make alternative recommendations.

Q. Please summarize your testimony.

A. Progress Energy has requested authority to collect $252 million from customers as a Storm Cost Recovery Clause surcharge, over two years with interest. I will show that PEF's proposal seeks to require customers to pay, through the storm surcharge, O&M costs that are already covered through the base rates that customers pay. I will also discuss certain principles of capitalization, retirement and cost of removal accounting that should be applied to PEF's storm damage request. Finally, I will demonstrate that in its request PEF fails to take into account the 2002 stipulation that, OPC asserts, requires PEF to demonstrate that expenses (including storm-related expenses) have caused its earned rate of return on equity capital to fall to 10% before seeking to increase customers' rates for any reason. I will quantify the impact of that omission. I will show that, once adjustments have been made to recognize these considerations, the amount of the negative balance in PEF's storm reserve is reduced from $252 million to approximately $123 million.

Q. Do you have an exhibit which summarizes PEF's basic estimates?

A. Yes, Exhibit___(MJM-1) summarizes PEF's basic estimates.

II. Approach to the Analysis

Q. Please describe the manner in which you approached your analysis of PEF's request.

A. My basic approach is based upon recognition of the fact that casualty losses, even catastrophic ones, are not a new phenomenon with respect to the proper accounting principles that should be applied. The basic accounting rules that govern the addition and subsequent depreciation of capital investments, as well as the proper accounting treatment to be afforded operations and maintenance expense, are not rendered inapplicable by the magnitude of the losses. Essentially, the issue is not whether PEF will be allowed to recover prudently incurred costs; rather, the questions are when PEF will recover those costs and whether and to what extent PEF should be allowed to increase rates for the purpose. While the nature of the catastrophe may well warrant the acceleration of the period of recovery, care must be taken to ensure that the special measures adopted to meet the circumstances do not require customers to pay twice for the same costs, whether they are expense or capital.

Q. Given the magnitude of the storms, how can "normal" accounting principles be applicable?

A. There is certainly no dispute regarding the extent of damage and the magnitude of the dollars involved in restoration efforts. However, the situation should be viewed in perspective. PEF contends the negative balance in its storm reserve is $252 million. The net book value of PEF's plant in service is roughly $8 *billion.* Over time, it has collected from customers at least $528 million for the sole purpose of defraying the costs of removing transmission and distribution assets as they are retired. **This number is quantified** in Exhibit___(MJM-2), which summarizes information provided by the Company.

PEF's net income for the twelve months ending July 2004 was $325 million. As I will show later in my testimony, PEF could apply some $100 million of calendar year 2004 earnings to reduce the negative storm reserve balance and still earn a healthy rate of return for the year. While the absolute damage figures are large, and while I do not wish to diminish either the disruptions caused by the storms or the tremendous efforts that were necessary to restore service, the Commission should view the situation in context and not lose sight of accounting principles applicable to casualty losses.

This objective is best met by reviewing PEF's proposal to ensure that only extraordinary expenses that are incremental to those the utility would incur under normal circumstances are charged to the storm reserve. I regard this as the "overarching objective" of the analysis of PEF's proposal.

Q. How did you implement this approach in your analysis?

A. Upon being engaged by the Office of Public Counsel, I was pleased to learn that OPC was already in the process of formulating, for purposes of its involvement in the docket, a set of specific criteria designed to ensure that only extraordinary expenses would be booked to the Storm Reserve. Having reviewed those guidelines, I endorse them. However, I do have some reservations concerning the expensing of any capital costs at all. Therefore, from my perspective, the OPC's criteria are very generous to PEF. Where the available data allows me to do so, I have recommended specific adjustments to the Commission. The OPC's guidelines are:

OPC Storm Damage Guidelines

CAPITAL ADDITIONS:

A. All capital additions should be booked to plant in service at current book cost of materials and labor. Only additional, extraordinary capital-related expenses will be booked to the storm reserve.

B. All retirements resulting from 2004 storms should be booked based on existing, approved depreciation/retirement procedures.

C. The cost of removal expense related to the plant items that have been retired due to 2004 storm damage should be excluded from storm recovery expenses that are charged to the storm damage reserve account, and should instead be charged to the reserve for accumulated cost of removal.

OPERATING AND MAINTENANCE EXPENSES:

D. All base salaries from all bargaining unit labor costs should be excluded from storm recovery expenses charged to the storm damage reserve account.

E. Only those costs of materials and supplies that exceed the material and supplies expense anticipated under normal operations should be charged to the storm reserve.

F. All insurance recoveries, less deductibles, should be eliminated from the storm recovery amounts.

G. The amount charged to the storm damage reserve account should exclude all expenses associated with the following activities:

1. Operating expenses and overheads for company-owned vehicles.
2. Storeroom expense.
3. Advertising expense.
4. Employee training expense.
5. Management overheads except for overtime when working on storms.
6. All other allocated expenses included in normal operations and existing budgets.
7. Labor costs associated with repairs and replacements that have been identified as job or work orders, but that have not yet been worked and that will be completed by existing, full time employees or regular, budgeted contract personnel.

8. Labor costs associated with any work or activity related to the storm other than the jobs or work orders identified in (7) above that will be completed by any employees as part of their regular job duties.
9. Call center activities should be excluded except for non-budgeted overtime associated with the storm event.
10. No uncollectible expenses or lost revenues should be booked to the storm reserve.
11. No expenses associated with cash advances made to employees should be booked to the storm reserve.

Q. Why are these principles important?

A. First, the Commission has no rule in place that governs the matter. Next, the sheer size and magnitude of 2004 storm events require specific direction for accountants wading through thousands of bills. Ratepayers must be protected from "double billing." The utility must not be allowed to make money from the storm events. It is therefore imperative that the Commission direct the company to follow specific accounting guidelines that it deems appropriate.

III. Background

Q. Please explain the Storm Damage Reserve.

A. In 1992 Florida suffered severe damage from Hurricane Andrew. As a result, utilities found it difficult to procure reasonably priced commercial insurance for storm damage to transmission and distribution facilities. They petitioned the Commission to authorize self-insurance programs. The Commission authorized PEF to self-insure for storm damage in Docket No. 930867-EI (Order No. PSC-93-1522-FOF-EI, Issued October 15, 1993).

Q. How does the Storm Damage Reserve work?

A. PEF's Storm Damage Reserve is an unfunded account. It is increased by annual accruals in amounts approved by the Commission and reduced by actual storm damage costs charged to it. The annual accrual to the Storm Reserve was initially set at $3 million. The accrual was increased to $6 million effective January 1, 1994. (Direct Testimony of Javier Portuondo ("Portuondo Direct"), p. 5.) This accrual is debited to annual operating expense and credited to the Storm Damage Reserve.

PEF's base rates are set to collect the $6 million annual accrual, and PEF does not transfer any of the resulting cash it collects into a separate physical account. In the event of a "withdrawal" from the Storm Damage Reserve due to actual storm damages, the Company uses cash on hand, or borrowed funds. (Portuondo Direct, p. 6) However, PEF has given no indication that it experienced any difficulty in paying storm damage-related bills as they came due.

Q. What is the balance in the Storm Damage Reserve?

A. As of December 31, 2004, the Storm Damage Reserve had a balance of $46.9 million. This is before any storm-related charges due to the four hurricanes in 2004. (Portuondo Direct, p. 9) If all of PEF's estimated Storm Damage Costs were charged to the reserve, they would result in a negative balance of $264.5 million, as shown in my Exhibit___(MJM-1) which is attached to my testimony.

Q. How does PEF report and account for the Storm Damage Reserve?

A. PEF accounts and reports the Storm Damage Reserve as a Regulatory Liability. As stated in PEF's December 31, 2003 FERC Form 1:

> 7. Regulatory Matters
>
> As a regulated entity, PEF is subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Accordingly, PEF records

> certain assets and liabilities resulting from the effects of the ratemaking process, which would not be recorded under GAAP for nonregulated entities. (Florida Power Corporation, December 31, 2003 FERC Form 1 Report, pages 123.12 – 123.13.)

Conceptually, a Regulatory Liability is an amount owed to ratepayers until it is spent on it intended purpose, as opposed to a Regulatory Asset which is an amount assumed to be recoverable from ratepayers. (Statement of Financial Accounting Standards No. 71, paragraphs 9 and 11.) Regulatory Liabilities are grouped with Regulatory Assets on PEF's balance sheet.

Q. Will you please summarize PEF's storm cost recovery proposal?

A. Yes. In August and September, 2004, four hurricanes struck Florida in rapid succession: Charley, Frances, Jeanne and Ivan. These hurricanes caused significant damage and left many residents without power, thus causing PEF to incur certain extraordinary costs.

On September 10, 2004 PEF filed a petition with the Commission, requesting that it be authorized to establish a regulatory asset for storm damage costs that exceed the $44.4 million balance of the Storm Damage Reserve Fund. By Orders issued and consummated October 8, 2004 and November 9, 2004, the Commission found it <u>unnecessary</u> to create a separate regulatory asset because Rule 25-6.0143, Florida Administrative Code, by directing that all costs be charged to the storm reserve, enabled the utility to record a negative balance and thereby defer recognition of the expense pending consideration of its petition. (Docket No. 041272, November 18, 2004 Order Establishing Procedure ("Procedure Order"), p. 1.) PEF also sought <u>future</u> recovery of reasonable and prudently incurred storm damage costs in excess of its Storm Damage Reserve Fund. (Procedure Order, p. 1.)

The Commission made its decision regarding PEF's request to establish a regulatory asset with the understanding that PEF will continue booking amounts consistent with its current accounting practice. The Commission noted that the amounts are subject to its review and approval in the event that a subsequent petition for recovery of storm-related damages was to be filed. (Procedure Order, p. 1, emphasis added.)

On November 2, 2004, PEF petitioned the Commission to establish a Storm Cost Recovery Clause to recover extraordinary hurricane related costs. Specifically:

> ...PEF requests the Commission to establish a Storm Cost Recovery Clause that will allow PEF to recover from its ratepayers over two years its reasonable storm costs in excess of the balance in its storm reserve. The clause should provide for the recovery of the Company's storm-related Operation and Maintenance (O&M) costs, including in part its costs in excess of typical charges under normal operating conditions for capital expenditures. As allocated to the Company's retail jurisdiction, based on current estimates, the total amount to be recovered is $251.9 million. The $251.9 million plus interest will be recovered over two years in equal amounts, resulting in the recovery of $132.2 million in 2005 and $128 million in 2006, based on a January 1, 2005 start date. PEF's storm-related costs classified as capital expenditures will not be recovered directly from customers under the Storm Cost Recovery Clause. Rather, the $50.1 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. What is your opinion regarding PEF's proposed Storm Cost Recovery Clause?

A. PEF has violated the principles that I delineated above in several respects. First, PEF has improperly moved O&M expenses to the storm fund that customers already bear through the base rates they pay. Second, PEF maintains in its testimony that it will apply proper plant additions and cost of removal accounting to capital replacements made necessary by storm damage. As of the filing of this testimony PEF has failed to provide the necessary accounting documentation that demonstrates its procedures are consistent with its testimony.

The effect of each failure is to require customers to pay the same costs twice. Finally, and most significant in terms of the dollars involved, PEF has failed to recognize the impact of a stipulation and order that, I am advised, requires PEF's earnings to drop below 10 percent ROE before the Company seeks to increase base rates. The effect of these failures and departures is to overstate the costs that should be charged to the Storm Damage Reserve.

IV. Categories of Costs

Q. Does the Company describe the types of costs it proposes to transfer to storm recovery?

A. Yes, they are summarized in the Direct Testimony of Javier Portuondo (page 10, emphasis added):

> The storm costs that would be recovered by the clause include the Company's <u>storm-related O&M costs</u>, net of the year-end balance in the Reserve, and <u>its incremental costs above those typically incurred under normal operating conditions for capital expenditures</u>.

V. <u>Operations and Maintenance Costs</u>

Q. Turning first to PEF's proposed treatment of O&M expenses, what is your basic objection?

A. By moving all expenses associated with the storm repair effort to the storm reserve, without taking into account the normal level of expenditures funded by base rates that customers pay, PEF effectively requires customers to pay to pay twice for the same costs. I refer to the practice as "double dipping." The impact can be seen in the effect of the practice on PEF's net income during the months of the repair efforts. Again, base rates support a budgeted level of O&M expense. By moving *all* such expenses to the storm reserve, PEF creates more "head room" between budgeted expenses and budgeted base revenues than it would expect if there were no storms. Ironically, the practical effect is to *increase* PEF's net income for the period above the level it would have anticipated in the absence of the storms. That PEF's profit margins would be increased as a result of the storm-related accounting is the best evidence of the presence of "double dipping."

Q. Do you have any indication that the Company is under budget on any of the above costs?

A. Yes. The Company has provided several presentations and other documents which compare budgeted expenses with actual expenses, or compare current expenses with the previous year. Many of these indicate that O&M expenses are under budget for the months during and following the hurricanes. These documents actually indicate that this favorability of actual to budget is due to costs shifting to the storm reserve.

For example, in response to Staff 1st Interrogatory, Question No. 7, Progress provided a comparison of its non-recoverable O&M expenses for the periods January through October 2004, and January through December 2003. Exhibit___(MJM-3) shows the totals on a monthly basis. It is apparent that the Company is averaging $4.2 million less per month in non-recoverable O&M for 2004, than it did in 2003.

Furthermore, in a draft of the October 2004 presentation to the Monthly Financial Review Meeting, [redacted] over budget is shown for CMR O&M Total for the October 2004 year-to-date. With additional O&M costs, this [redacted] (Response to OPC's 1st Production of Documents Request, Question No. ~~2~~ 5, bates page PEF-SR-01118.) That same document explains the [redacted] amount as [redacted] (bates page PEF-SR-01157.)

Q. Why does Mr. Portuondo's O&M proposal result in a double-dip?

A. When one carefully reads Mr. Portuondo's statement one realizes that he is proposing that all of PEF's costs relating to the storms be charged to the Reserve. This fails to recognize that PEF already budgeted for a certain amount of costs and these "normal" cost levels are already being charged to ratepayers.

The Company confirms that this is the case in its response to FIPUG's 1st Interrogatory, Question No. 7, which I have attached as Exhibit___(MJM-4). There, when asked about the amount of budgeted O&M that is included in its request for storm recovery, the Company stated: "PEF has not deducted its budgeted O&M expenses from the extraordinary storm-related expenses it proposes to recover in this case."

Thus, Mr. Portuondo's proposal would collect twice; once through base rates and again through the Storm Damage Recovery Clause. This is not fair to ratepayers and would unjustly enrich PEF's management and shareholders.

Q. How has PEF responded to the suggestion that it is engaging in double recovery?

A. As I understand it, based on responses during depositions, PEF's position is that the budgeted work has simply been postponed, to be "caught up" during subsequent periods. (Portuondo Deposition, p. 19.)

Q. Does this justify PEF's proposal to shift all expenses to the storm fund?

A. No. First, the rationale assumes the same projects that would have occupied employees remain to be performed. Given the changes wrought by the storms and the resulting repair/replacement projects, which may have either accomplished the tasks or obviated the need for them, this is in my opinion an unwarranted assumption. Even if some of the tasks have been shifted to future periods, the flexibility of the budgeting process may easily accommodate them. PEF should be required to demonstrate that it will incur financial harm as a consequence of "catch-up" tasks following the completion of storm repairs. It has failed to do so in this docket.

Q. Why does PEF use this approach?

A. PEF wants the customers to assume 100% of the risk of storm damage, a concept that the Commission has rejected in the past. While PEF's "double dipping" approach might be appropriate for calculating tax losses and insurance claims, it is absolutely wrong when seeking a rate increase from customers. The Commission should implement strict accounting procedures for PEF to follow to eliminate the increased rates that result when customer are required to pay twice for the same expense.

Q. What types of operations and maintenance ("O&M") costs does PEF propose to recover through the Storm Recovery Clause?

A. The types of O&M costs the Company proposes to recover are listed on pages 11-12 of Mr. Portuondo's testimony. They include:

- "Labor costs - including overtime or premium pay for employees dedicated to repair activities such as line crews, storeroom, engineering, and transportation personnel, payroll loading for associated taxes, administrative costs, and employee benefits."
- "Materials and supplies - all materials and supplies (M&S) used for the temporary or permanent repair or replacement of facilities, including a standard loading factor to cover the administration of M&S inventories and the cost of preparing, operating, and staffing temporary staging facilities for materials and supplies distribution."
- "Outside Services - including reimbursement costs to other utilities and payment to subcontractors dedicated to restoration activities."
- "Transportation costs - including operating costs, fuel expense, and repair and maintenance of Company fleet or rented vehicles."
- "Damage assessment costs - including surveys, helicopter line patrols, and operation of assessment and control facilities."
- "Costs associated with the rental or operation and maintenance of any equipment used in direct support of restoration activities such as communication equipment, office equipment, computer equipment, etc."
- "Costs associated with injuries and damages to personnel or their property as a direct result of restoration activities."

- "Costs of temporary housing for restoration crews and support personnel and their related subsistence costs."
- "Storm preparation costs - including information costs and training for Company employees."
- "Fuel and related costs for back-up generators."
- "Costs of customer service personnel, phone center personnel, and other division personnel dedicated to customer service needs and locating and prioritizing areas of damage."
- "Special advertising and media costs associated with customer information, public education or safety."
- "Special employee assistance - including cost of cash advances, housing or subsistence for employees and families to expedite their return to work."
- "Identifiable bad debt write-offs due to storm damage."
- "Any other appropriate cost directly related to storm damage and restoration activities."

Q. Does OPC propose to eliminate all of these expenses?

A. Absolutely not. Millions of dollars were spent for thousands of workers who cleared the storm damage, and replaced damaged plant. The labor costs, meals, and lodging for these outside crews and their vehicles are clearly extraordinary storm expenses and should be booked to the storm reserved. By the same token, the basic wages and vehicle cost of the company's employee work force and vehicle fleet have been paid for through basic rates and should be excluded from being charged to the storm reserve.

PEF readily admits that if an employee worked on the storm, the basic wages plus any overtime would be charged to the storm fund. No basic PEF salary or other expenses should be charged to the storm fund.

Mr. Portuondo, in his deposition clearly explained that if the President, a salaried employee, worked on the storm that part of his salary would be charged to the storm fund. Ratepayers will pay $21,000 toward his salary through the storm surcharge for doing work that we clearly expect to be included in his base salary. See Exhibit___(MJM-6).

Q. Doesn't the Company claim that its accounting procedures were approved by the Commission?

A. The Company claims that the Commission approved its procedures in 1995, but a careful reading of the orders issued during that time frame shows that the Commission approved the establishment of the storm reserve itself and expressed its intent to engage in rulemaking and workshops regarding procedures. That never happened.

Progress admits that it has booked its expenses for all hurricanes since that time based on its "double dipping" procedures. The Company has never received approval for any of the expenses it has booked to the storm reserve since 1995.

Q. Did the Commission specifically state in Order No. PSC-93-1522-FOF-EI that any and all direct costs relating to storm damage recovery were recoverable from customers via a surcharge?

A. No. In response to the Company's request to create a regulatory asset for storm damage that exceeds the reserve, the Order states, "This Commission already has a rule in place to govern the use of Account 228.1, Accumulated Provision for Property Insurance. Rule 25-6.0143(4)(b), Florida Administrative Code, provides that "...each and every loss or cost which is covered by the account shall be charged to that account and shall not be charged directly to expenses. Charges shall be made to accumulated provision accounts regardless of the balance in those accounts."" (Docket No. 930867-EI, Order No. PSC-93-1522-FOF-EI, Issued October 15, 1993, p. 4 and 5.) However, the Order then goes on to state the following:

> If FPC experiences significant storm related damage, it can petition for appropriate regulatory action. In the past, this Commission has allowed recovery of prudent expenses and has allowed amortization of storm damage expense. Extraordinary events such as hurricanes have not caused utilities to earn less than a fair rate of return. FPC shall be allowed to defer storm damage loss over the amount in the reserve until we act on any petition filed by the Company.
>
> No prior approval will be given for the recovery of costs to repair and restore T&D facilities in excess of the Reserve balance. However, we will expeditiously review any petition for deferral, amortization or recovery of prudently incurred costs in excess of the reserve.

While I am not offering a legal opinion, I believe this means that the Commission may disallow certain costs, it may adjust amortization amounts, and it is not required to approve any surcharges.

Q. **Why do you believe that the Company should not be allowed to recover "each and every cost" relating to storm damage recovery through a surcharge?**

A. The circumstances in this case are very different from those previously experienced. When Progress petitioned for self-insurance, the Company's average annual storm loss had been $1.4 million over the past 10 years. (Order No. PSC-93-1522-FOF-EI, p. 2) Progress has been accruing $6 million per year in its Storm Damage Reserve Fund since 1994 and currently has a balance of

$46.9 million, which the company has used for working capital for the past 10 years. Customers have never been asked to pay more for storm expenses. Now, the Company is faced with $252 million in storm-related O&M expenses, net of the reserve, and it wants ratepayers to pay for all of them, separately and above what ratepayers are already paying to cover the day-to-day operations of the Company. The Commission ruled that the Company could petition for recovery – but did not guarantee that it would provide recovery through means that would not affect earnings. Clearly, the Commission deliberately retained its ability to view a request in light of all relevant circumstances and tailor its response accordingly.

Q. Do you believe that the past recoveries for Hurricanes Erin, Floyd, and Gabrielle should have bearing on this case?

A. No. For those hurricanes, the balance in the storm reserve was not exceeded, ratepayers were not asked to pay additional amounts, and the Commission was not involved, so the Company was allowed to recover at will. (Response to FIPUG's 1st Interrogatory, Question No. 23.) See Exhibit___(MJM-5). In this case, the Company is asking ratepayers to kick in $252 million, plus interest, over two years, in addition to the $6 million they are already paying per year for storm damage recovery.

Q. Do you disagree with the recovery of all of PEF's proposed O&M costs?

A. As I stated earlier many expenses identified by the Company are truly extraordinary in nature. I believe the amounts approved for recovery should not include normal levels of expenses as measured by the budget. I have the following specific disagreements:

- Base Salaries – PEF proposes to charge the full labor costs associated with storm recovery efforts to the Storm Damage Reserve. This includes normal base salaries, which are already included in the Company's annual budget. The ratepayers are paying for these salaries through base rates. They should not be required to pay for them twice. Based on the Company's response to Staff's 1st Interrogatory, Question No. 11, I have calculated this amount to be $5.46 million. See Exhibit___(MJM-6). This amount includes regular pay for both Bargaining Unit and Non-Exempt employees, both for PEF and the service company, and includes sweeps work.
- Salaries of Exempt Management – These salaries are also included in the budget, and paid for through base rates. They should be removed from the storm damage claim. Based on the Company's response to Staff's 1st Interrogatory, Question No. 11, I have calculated this amount to be $6.4 million. See Exhibit___(MJM-6). This amount includes regular pay for both PEF and the service company Exempt personnel.
- Vehicle Expense – Progress has provided an itemization of the $3,393,913 in company-owned vehicle related expenses included in its claim in its response to Staff's 1st Interrogatory, Question No. 12. The related expenses included $909 thousand for depreciation, $702 thousand for fuel, $1.6 million in maintenance and $222 thousand in overhead. Although Company vehicles have been used in the storm recovery effort, these vehicles have already been included in the annual budget. The depreciation of the vehicles would be the same, regardless of whether

they are used for storm damage recovery, or used in the regular course of business. The same is essentially true for vehicle overhead, maintenance, etc. Subsequently, all operating costs, repair and maintenance of the Company's fleet should be eliminated from the recovery claim. The only extraordinary cost that the Company has incurred relating to storm recovery is the incremental cost of fuel, due to longer daily operations. As such, I recommend that the PEF be allowed to recover one-half (1/2) of the fuel expense included in its storm damage claim, or $350,898. This adjustment is based on the assumption that vehicles were in use 16 hours per day during storm restoration, rather than the normal 8 hours per day. The adjustment related to vehicle expense should be a removal of $3,043,015 from the storm damage claim. See Exhibit___(MJM-7).

- <u>Tree Trimming</u> – Tree trimming expense should be limited to the amounts which exceed PEF's normal budget. The tree trimming budget variance appears to be $3.9 million. (January 24, 2005 Deposition of Mark V. Wimberly ("Wimberly Deposition"), p. 62.) This amount should be excluded from the Company's claim.
- <u>Call Center Expense</u> – Call center expenses for the storm recovery should be limited to the call overloads created by the storms. I do not have sufficient information to make an adjustment for call center expense at this time.
- <u>Uncollectible Expense</u> – PEF proposes to charge an estimated amount of "storm related" uncollectible expense to the storm damage reserve. This

amount is speculative, and unlike other types of expenses which will ultimately be trued-up, uncollectible expense is likely to remain speculative. There is no way to determine if a customer's account must be written off due specifically due to the storm, or for other reasons. Also, PEF has failed to demonstrate the actual amount of uncollectible expense it may have incurred due to the storms. Furthermore, the storm reserve should be limited to the costs of repairing damage to the system. Uncollectible expense is unrelated to repairing damage and restoring service, unlike the majority of the Company's other claimed storm-related costs. The uncollectible expense included in the Company's claim should be removed. This adjustment results in the removal of $2.25 million from the storm damage claim. See Wimberly Exhibit___(MVW-1), page 15.

Q. Do you have an exhibit which summarizes the O&M expense adjustments you discuss above?

A. Yes, these expense adjustments are summarized on Exhibit___(MJM-8).

Q. Now that the storms have passed and operations have returned to normal, does the Company plan to continue to charge costs in the Storm Reserve, related to these hurricanes?

A. Yes, PEF plans to charge any work still remaining related to the storms to the Reserve. This is work that was identified during the "sweeps", but not yet complete. The Company has estimated that this work will be completed during the first quarter of 2005.

Q. Do you agree with this practice?

A. Once normal operations have resumed, outside contractors have been sent home, and employees are back to working a normal workweek, any remaining storm-recovery activities should be performed in the normal course of business and should not be booked to the storm account. PEF should be required to demonstrate that it has incurred extraordinary expense before it is allowed to receive extraordinary recovery.

VI. <u>Capital Costs</u>

Q. How does the Company plan to handle capital costs relating to storm damage repair?

A. According to Mr. Portuondo's testimony, "Only those capital expenditures above the level of what would have been incurred under normal operating conditions, whether related to labor or materials, will be classified as O&M and charged to the Storm Damage Reserve."

Q. How does the Company plan to handle plant replacements?

A. As Mr. Portuondo explains at page 13 of his Direct Testimony, "To explain further the accounting treatment for capital expenditures that are not charged to storm-related O&M costs, the book value of capital investments that have been retired due to storm damage will be charged against the accumulated depreciation reserve. New storm-related capital expenditures will be added to plant in service in an amount equal to the capital expenditure that would have been incurred using a standard cost approach under normal operating conditions."

Q. Has the Company stated the amount of capital costs it expects to incur?

A. Progress states that it has incurred $54.9 million (system) in capital expenditures, or $54.4 (retail). (Portuondo Testimony, p. 13.) In other words, this is the amount of total capital costs which PEF has designated as storm-related, which it will record to its regulated rate base and depreciate.

Q. Does the $54 million include cost of removal?

A. PEF claims that "the quantification of the $54 million will include the cost of removal estimate for the investments being retired." (January 24, 2005 Deposition of Javier J. Portuondo ("Portuondo Deposition"), p. 46.) I am not certain that this is the case. The Commission should make certain by requiring the Company to produce its cost of removal accounting entries. The cost of removal reserve for transmission and distribution facilities is $528 million (See Exhibit___(MJM-2). The Commission needs to ensure, as a minimum, that the average cost of removal expense has been deducted from the storm expenses and credited to the large cost of removal reserve being held for that purpose.

Q. What is the total amount of the capital costs that PEF designates as storm-related?

A. PEF designates $127.5 million (retail) as storm-related capital costs.

Q. What is the source of that number?

A. That is the amount that PEF estimates will be capitalized for income tax purposes as shown on Mr. Wimberly's Exhibit___(MVW-1).

Q. How much of the $127.5 million capital cost does PEF propose to charge to the Storm Damage Reserve as O&M expense?

A. PEF proposes to charge $73.1 million or 57 percent of what it designates as storm-related capital costs as O&M expense to the Storm Damage Reserve and collect it via the Storm Damage Recovery Clause.

Q. Can you determine, based on the information provided, whether the Company has followed the appropriate accounting procedures with respect to capital items?

A. With the reservation as discussed earlier about expensing capital, it appears that PEF and I may agree conceptually as to the appropriate accounting treatment. However, to ensure that PEF is implementing the correct procedure, it will be necessary to review the actual accounting entries. At the time this testimony is being finalized, PEF has not provided those entries. Therefore, I wish to reserve the opportunity to supplement this testimony if warranted by additional information.

Q. Do you have any additional comments about PEF's depreciation rates and cost of removal?

A. Yes, the Commission should consider whether or not it is appropriate to continue to charge ratepayers for future cost of removal if those funds are not available when needed.

VII. PEF's Failure to Apply 2004 Earnings Above 10% ROE to Reduce the Negative Balance in its Storm Reserve

Q. Are PEF's service rates subject to a "rate plan"?

A. Yes. PEF's service rates are subject to a rate plan established as the result of a settlement in 2002. The rate plan contains a 10 percent return on equity threshold that PEF must satisfy before seeking to increase rates.

Q. What is OPC's position regarding this rate plan and the interplay with the Storm Damage Reserve?

A. I am advised that OPC's position is that the stipulation effectively requires PEF to apply 2004 earnings above 10 percent ROE to reduce the negative balance before seeking to increase customers' rates for the purpose.

Q. Does any other OPC witness address this issue?

A. Yes. While OPC's primary position is based on a legal argument, in his testimony Mr. James A. Rothschild explains that, in view of the risk appropriately borne by PEF and in view of current economic factors, in his opinion the 10 percent criterion would be a reasonable way to share the risk even if there were no stipulation. Given what I have been advised is the legal effect of the stipulation, and in light of Mr. Rothschild's opinion, I will identify the size of the adjustment that would be needed to apply the 10 percent criterion.

Q. Do you expect PEF to earn more than 10 percent ROE in 2004?

A. Yes.

Q. Has the Company performed any calculations demonstrating this?

A. Yes. Progress performed this calculation in response to FIPUG's 1st Interrogatory, Question No. 5. The Company determined that it could absorb $113.9 million of the system storm expenses, and still earn a 10 percent return on equity. This translates to $108.4 million in retail jurisdiction storm expenses.

Q. What do you recommend?

A. As shown on Exhibit___(MJM-8), I recommend that PEF reduce the double-dipping expenses charged to the Storm Damage Reserve by $21 million and then implement the 10% threshold. In other words, once the correct Storm Damage expenses are determined, the first $113.9 million (system) of those expenses should be retained as 2004 expenses, rather than being charged to the

Storm Damage Reserve. Ultimately, PEF's retail storm charges are reduced to $123.3 million retail. I recommend the Commission emphasize its approval of a surcharge is limited to the specific 2004 events, and does not authorize PEF to charge future amounts of storm-related costs to the reserve without specific Commission approval.

VIII. Summary

Q. Please summarize your recommendations.

A. In this case, PEF has claimed that storm-related costs have resulted in a negative storm reserve balance of $252 million, which PEF wants to collect from customers over a period of two years. However, this amount should be reduced to remove O&M and potential capital costs that should not have been charged to the storm reserve to begin with. To date I have estimated about $21 million (system) of those types of expenses. In addition to these reductions, PEF should apply 2004 earnings of $113.9 million (system), whether to satisfy the legal requirement of the 2002 ratemaking stipulation or to implement the recommendation of James Rothschild to reflect an appropriate sharing of storm-related risks.

Q. Does this conclude your testimony?

A. Yes, it does.

Experience

Snavely King Majoros O'Connor & Lee, Inc.

Vice President and Treasurer (1988 to Present)
Senior Consultant (1981-1987)

Mr. Majoros provides consultation specializing in accounting, financial, and management issues. He has testified as an expert witness or negotiated on behalf of clients in more than one hundred thirty regulatory proceedings involving telephone, electric, gas, water, and sewerage companies. Mr. Majoros has appeared before Federal and state agencies. His testimony has encompassed a wide variety of complex issues including taxation, divestiture accounting, revenue requirements, rate base, nuclear decommissioning, plant lives, and capital recovery. Mr. Majoros has also provided consultation to the U.S. Department of Justice.

Mr. Majoros has been responsible for developing the firm's consulting services on depreciation and other capital recovery issues into a major area of practice. He has also developed the firm's capabilities in the management audit area.

Van Scoyoc & Wiskup, Inc., *Consultant (1978-1981)*

Mr. Majoros performed various management and regulatory consulting projects in the public utility field, including preparation of electric system load projections for a group of municipally and cooperatively owned electric systems; preparation of a system of accounts and reporting of gas and oil pipelines to be used by a state regulatory commission; accounting system analysis and design for rate proceedings involving electric, gas, and telephone utilities. Mr. Majoros also assisted in an antitrust proceeding involving a major electric utility. He submitted expert testimony in FERC Docket No. RP79-12 (El Paso Natural Gas Company). In addition, he co-authored a study entitled Analysis of Staff Study on Comprehensive Tax Normalization that was submitted to FERC in Docket No. RM 80-42.

Handling Equipment Sales Company, Inc.
Treasurer (1976-1978)

Mr. Majoros' responsibilities included financial management, general accounting and reporting, and income taxes.

Ernst & Ernst, *Auditor (1973-1976)*

Mr. Majoros was a member of the audit staff where his responsibilities included auditing, supervision, business systems analysis, report preparation, and corporate income taxes.

University of Baltimore - *(1971-1973)*

Mr. Majoros was a full-time student in the School of Business.

During this period Mr. Majoros worked consistently on a part-time basis in the following positions: Assistant Legislative Auditor – State of Maryland, Staff Accountant – Robert M. Carney & Co., CPA's, Staff Accountant – Naron & Wegad, CPA's, Credit Clerk – Montgomery Wards.

Central Savings Bank, *(1969-1971)*

Mr. Majoros was an Assistant Branch Manager at the time he left the bank to attend college as a full-time student. During his tenure at the bank, Mr. Majoros gained experience in each department of the bank. In addition, he attended night school at the University of Baltimore.

Education
University of Baltimore, School of Business, B.S. – Concentration in Accounting

Professional Affiliations
American Institute of Certified Public Accountants
Maryland Association of C.P.A.s
Society of Depreciation Professionals

Publications, Papers, and Panels

"Analysis of Staff Study on Comprehensive Tax Normalization," FERC Docket No. RM 80-42, 1980.

"Telephone Company Deferred Taxes and Investment Tax Credits – A Capital Loss for Ratepayers," Public Utility Fortnightly, September 27, 1984.

"The Use of Customer Discount Rates in Revenue Requirement Comparisons," Proceedings of the 25th Annual Iowa State Regulatory Conference, 1986

"The Regulatory Dilemma Created By Emerging Revenue Streams of Independent Telephone Companies," Proceedings of NARUC 101st Annual Convention and Regulatory Symposium, 1989.

"BOC Depreciation Issues in the States," National Association of State Utility Consumer Advocates, 1990 Mid-Year Meeting, 1990.

"Current Issues in Capital Recovery" 30th Annual Iowa State Regulatory Conference, 1991.

"Impaired Assets Under SFAS No. 121," National Association of State Utility consumer Advocates, 1996 Mid-Year Meeting, 1996.

"What's 'Sunk' Ain't Stranded: Why Excessive Utility Depreciation is Avoidable," with James Campbell, Public Utilities Fortnightly, April 1, 1999.

"Local Exchange Carrier Depreciation Reserve Percents," with Richard B. Lee, Journal of the Society of Depreciation Professionals, Volume 10, Number 1, 2000-2001

Michael J. Majoros, Jr.

Federal Regulatory Agencies

Date			
1979	FERC-US 19/	RR79-12	El Paso Natural Gas Co.
1980	FERC-US 19/	RM80-42	Generic Tax Normalization
1996	CRTC-Canada 30/	97-9	All Canadian Telecoms
1997	CRTC-Canada 31/	97-11	All Canadian Telecoms
1999	FCC 32/	98-137 (Ex Parte)	All LECs
1999	FCC 32/	98-91 (Ex Parte)	All LECs
1999	FCC 32/	98-177 (Ex Parte)	All LECs
1999	FCC 32/	98-45 (Ex Parte)	All LECs
2000	EPA 35/	CAA-00-6	Tennessee Valley Authority
2003	FERC 48/	RM02-7	All Utilities
2003	FCC 52/	03-173	All LECs
2003	FERC	ER03-409-000, ER03-666-000	Pacific Gas and Electric Co.

State Regulatory Agencies

1982	Massachusetts 17/	DPU 557/558	Western Mass Elec. Co.
1982	Illinois 16/	ICC81-8115	Illinois Bell Telephone Co.
1983	Maryland 8/	7574-Direct	Baltimore Gas & Electric Co.
1983	Maryland 8/	7574-Surrebuttal	Baltimore Gas & Electric Co.
1983	Connecticut 15/	810911	Woodlake Water Co.
1983	New Jersey 1/	815-458	New Jersey Bell Tel. Co.
1983	New Jersey 14/	8011-827	Atlantic City Sewerage Co.
1984	Dist. Of Columbia 7/	785	Potomac Electric Power Co.
1984	Maryland 8/	7689	Washington Gas Light Co.
1984	Dist. Of Columbia 7/	798	C&P Tel. Co.
1984	Pennsylvania 13/	R-832316	Bell Telephone Co. of PA
1984	New Mexico 12/	1032	Mt. States Tel. & Telegraph
1984	Idaho 18/	U-1000-70	Mt. States Tel. & Telegraph
1984	Colorado 11/	1655	Mt. States Tel. & Telegraph
1984	Dist. Of Columbia 7/	813	Potomac Electric Power Co.
1984	Pennsylvania 3/	R842621-R842625	Western Pa. Water Co.
1985	Maryland 8/	7743	Potomac Electric Power Co.
1985	New Jersey 1/	848-856	New Jersey Bell Tel. Co.
1985	Maryland 8/	7851	C&P Tel. Co.
1985	California 10/	I-85-03-78	Pacific Bell Telephone Co.
1985	Pennsylvania 3/	R-850174	Phila. Suburban Water Co.
1985	Pennsylvania 3/	R850178	Pennsylvania Gas & Water Co.
1985	Pennsylvania 3/	R-850299	General Tel. Co. of PA
1986	Maryland 8/	7899	Delmarva Power & Light Co.
1986	Maryland 8/	7754	Chesapeake Utilities Corp.

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1986	Pennsylvania 3/	R-850268	York Water Co.
1986	Maryland 8/	7953	Southern Md. Electric Corp.
1986	Idaho 9/	U-1002-59	General Tel. Of the Northwest
1986	Maryland 8/	7973	Baltimore Gas & Electric Co.
1987	Pennsylvania 3/	R-860350	Dauphin Cons. Water Supply
1987	Pennsylvania 3/	C-860923	Bell Telephone Co. of PA
1987	Iowa 6/	DPU-86-2	Northwestern Bell Tel. Co.
1987	Dist. Of Columbia 7/	842	Washington Gas Light Co.
1988	Florida 4/	880069-TL	Southern Bell Telephone
1988	Iowa 6/	RPU-87-3	Iowa Public Service Company
1988	Iowa 6/	RPU-87-6	Northwestern Bell Tel. Co.
1988	Dist. Of Columbia 7/	869	Potomac Electric Power Co.
1989	Iowa 6/	RPU-88-6	Northwestern Bell Tel. Co.
1990	New Jersey 1/	1487-88	Morris City Transfer Station
1990	New Jersey 5/	WR 88-80967	Toms River Water Company
1990	Florida 4/	890256-TL	Southern Bell Company
1990	New Jersey 1/	ER89110912J	Jersey Central Power & Light
1990	New Jersey 1/	WR90050497J	Elizabethtown Water Co.
1991	Pennsylvania 3/	P900465	United Tel. Co. of Pa.
1991	West Virginia 2/	90-564-T-D	C&P Telephone Co.
1991	New Jersey 1/	90080792J	Hackensack Water Co.
1991	New Jersey 1/	WR90080884J	Middlesex Water Co.
1991	Pennsylvania 3/	R-911892	Phil. Suburban Water Co.
1991	Kansas 20/	176, 716-U	Kansas Power & Light Co.
1991	Indiana 29/	39017	Indiana Bell Telephone
1991	Nevada 21/	91-5054	Central Tele. Co. – Nevada
1992	New Jersey 1/	EE91081428	Public Service Electric & Gas
1992	Maryland 8/	8462	C&P Telephone Co.
1992	West Virginia 2/	91-1037-E-D	Appalachian Power Co.
1993	Maryland 8/	8464	Potomac Electric Power Co.
1993	South Carolina 22/	92-227-C	Southern Bell Telephone
1993	Maryland 8/	8485	Baltimore Gas & Electric Co.
1993	Georgia 23/	4451-U	Atlanta Gas Light Co.
1993	New Jersey 1/	GR93040114	New Jersey Natural Gas. Co.
1994	Iowa 6/	RPU-93-9	U.S. West – Iowa
1994	Iowa 6/	RPU-94-3	Midwest Gas
1995	Delaware 24/	94-149	Wilm. Suburban Water Corp.
1995	Connecticut 25/	94-10-03	So. New England Telephone
1995	Connecticut 25/	95-03-01	So. New England Telephone
1995	Pennsylvania 3/	R-00953300	Citizens Utilities Company
1995	Georgia 23/	5503-0	Southern Bell
1996	Maryland 8/	8715	Bell Atlantic
1996	Arizona 26/	E-1032-95-417	Citizens Utilities Company
1996	New Hampshire 27/	DE 96-252	New England Telephone
1997	Iowa 6/	DPU-96-1	U S West – Iowa

Michael J. Majoros, Jr.

1997	Ohio 28/	96-922-TP-UNC	Ameritech – Ohio
1997	Michigan 28/	U-11280	Ameritech – Michigan
1997	Michigan 28/	U-112 81	GTE North
1997	Wyoming 27/	7000-ztr-96-323	US West – Wyoming
1997	Iowa 6/	RPU-96-9	US West – Iowa
1997	Illinois 28/	96-0486-0569	Ameritech – Illinois
1997	Indiana 28/	40611	Ameritech – Indiana
1997	Indiana 27/	40734	GTE North
1997	Utah 27/	97-049-08	US West – Utah
1997	Georgia 28/	7061-U	BellSouth – Georgia
1997	Connecticut 25/	96-04-07	So. New England Telephone
1998	Florida 28/	960833-TP et. al.	BellSouth – Florida
1998	Illinois 27/	97-0355	GTE North/South
1998	Michigan 33/	U-11726	Detroit Edison
1999	Maryland 8/	8794	Baltimore Gas & Electric Co.
1999	Maryland 8/	8795	Delmarva Power & Light Co.
1999	Maryland 8/	8797	Potomac Edison Company
1999	West Virginia 2/	98-0452-E-GI	Electric Restructuring
1999	Delaware 24/	98-98	United Water Company
1999	Pennsylvania 3/	R-00994638	Pennsylvania American Water
1999	West Virginia 2/	98-0985-W-D	West Virginia American Water
1999	Michigan 33/	U-11495	Detroit Edison
2000	Delaware 24/	99-466	Tidewater Utilities
2000	New Mexico 34/	3008	US WEST Communications, Inc.
2000	Florida 28/	990649-TP	BellSouth -Florida
2000	New Jersey 1/	WR30174	Consumer New Jersey Water
2000	Pennsylvania 3/	R-00994868	Philadelphia Suburban Water
2000	Pennsylvania 3/	R-0005212	Pennsylvania American Sewerage
2000	Connecticut 25/	00-07-17	Southern New England Telephone
2001	Kentucky 36/	2000-373	Jackson Energy Cooperative
2001	Kansas 38/39/40/	01-WSRE-436-RTS	Western Resources
2001	South Carolina 22/	2001-93-E	Carolina Power & Light Co.
2001	North Dakota 37/	PU-400-00-521	Northern States Power/Xcel Energy
2001	Indiana 29/41/	41746	Northern Indiana Power Company
2001	New Jersey 1/	GR01050328	Public Service Electric and Gas
2001	Pennsylvania 3/	R-00016236	York Water Company
2001	Pennsylvania 3/	R-00016339	Pennsylvania America Water
2001	Pennsylvania 3/	R-00016356	Wellsboro Electric Coop.
2001	Florida 4/	010949-EL	Gulf Power Company
2001	Hawaii 42/	00-309	The Gas Company
2002	Pennsylvania 3/	R-00016750	Philadelphia Suburban
2002	Nevada 43/	01-10001 &10002	Nevada Power Company
2002	Kentucky 36/	2001-244	Fleming Mason Electric Coop.
2002	Nevada 43/	01-11031	Sierra Pacific Power Company
2002	Georgia 27/	14361-U	BellSouth-Georgia

Michael J. Majoros, Jr.

2002	Alaska 44/	U-01-34,82-87,66	Alaska Communications Systems
2002	Wisconsin 45/	2055-TR-102	CenturyTel
2002	Wisconsin 45/	5846-TR-102	TelUSA
2002	Vermont 46/	6596	Citizen's Energy Services
2002	North Dakota 37/	PU-399-02-183	Montana Dakota Utilities
2002	Kansas 38/	02-MDWG-922-RTS	Midwest Energy
2002	Kentucky 36/	2002-00145	Columbia Gas
2002	Oklahoma 47/	200200166	Reliant Energy ARKLA
2002	New Jersey 1/	GR02040245	Elizabethtown Gas Company
2003	New Jersey 1/	ER02050303	Public Service Electric and Gas Co.
2003	Hawaii 42/	01-0255	Young Brothers Tug & Barge
2003	New Jersey 1/	ER02080506	Jersey Central Power & Light
2003	New Jersey 1/	ER02100724	Rockland Electric Co.
2003	Pennsylvania 3/	R-00027975	The York Water Co.
2003	Pennsylvania /3	R-00038304	Pennsylvania-American Water Co.
2003	Kansas 20/ 40/	03-KGSG-602-RTS	Kansas Gas Service
2003	Nova Scotia, CN 49/	EMO NSPI	Nova Scotia Power, Inc.
2003	Kentucky 36/	2003-00252	Union Light Heat & Power
2003	Alaska 44/	U-96-89	ACS Communications, Inc.
2003	Indiana 29/	42359	PSI Energy, Inc.
2003	Kansas 20/ 40/	03-ATMG-1036-RTS	Atmos Energy
2003	Florida 50/	030001-E1	Tampa Electric Company
2003	Maryland 51/	8960	Washington Gas Light
2003	Hawaii 42/	02-0391	Hawaiian Electric Company
2003	Illinois 28/	02-0864	SBC Illinois
2003	Indiana 28/	42393	SBC Indiana
2004	New Jersey 1/	ER03020110	Atlantic City Electric Co.
2004	Arizona 26/	E-01345A-03-0437	Arizona Public Service Company
2004	Michigan 27/	U-13531	SBC Michigan
2004	New Jersey 1/	GR03080683	South Jersey Gas Company
2004	Kentucky 36/	2003-00434,00433	Kentucky Utilities, Louisville Gas & Electric
2004	Florida 50/ 54/	031033-EI	Tampa Electric Company
2004	Kentucky 36/	2004-00067	Delta Natural Gas Company
2004	Georgia 23/	18300, 15392, 15393	Georgia Power Company
2004	Vermont 46/	6946, 6988	Central Vermont Public Service Corporation

Michael J. Majoros, Jr.

PARTICIPATION AS NEGOTIATOR IN FCC TELEPHONE DEPRECIATION RATE REPRESCRIPTION CONFERENCES

COMPANY	YEARS	CLIENT
Diamond State Telephone Co. 24/	1985 + 1988	Delaware Public Service Comm
Bell Telephone of Pennsylvania 3/	1986 + 1989	PA Consumer Advocate
Chesapeake & Potomac Telephone Co. - Md. 8/	1986	Maryland People's Counsel
Southwestern Bell Telephone – Kansas 20/	1986	Kansas Corp. Commission
Southern Bell – Florida 4/	1986	Florida Consumer Advocate
Chesapeake & Potomac Telephone Co.-W.Va. 2/	1987 + 1990	West VA Consumer Advocate
New Jersey Bell Telephone Co. 1/	1985 + 1988	New Jersey Rate Counsel
Southern Bell - South Carolina 22/	1986 + 1989 + 1992	S. Carolina Consumer Advocate
GTE-North – Pennsylvania 3/	1989	PA Consumer Advocate

Michael J. Majoros, Jr.

PARTICIPATION IN PROCEEDINGS WHICH WERE SETTLED BEFORE TESTIMONY WAS SUBMITTED

STATE	DOCKET NO.	UTILITY
Maryland 8/	7878	Potomac Edison
Nevada 21/	88-728	Southwest Gas
New Jersey 1/	WR90090950J	New Jersey American Water
New Jersey 1/	WR900050497J	Elizabethtown Water
New Jersey 1/	WR91091483	Garden State Water
West Virginia 2/	91-1037-E	Appalachian Power Co.
Nevada 21/	92-7002	Central Telephone - Nevada
Pennsylvania 3/	R-00932873	Blue Mountain Water
West Virginia 2/	93-1165-E-D	Potomac Edison
West Virginia 2/	94-0013-E-D	Monongahela Power
New Jersey 1/	WR94030059	New Jersey American Water
New Jersey 1/	WR95080346	Elizabethtown Water
New Jersey 1/	WR95050219	Toms River Water Co.
Maryland 8/	8796	Potomac Electric Power Co.
South Carolina 22/	1999-077-E	Carolina Power & Light Co.
South Carolina 22/	1999-072-E	Carolina Power & Light Co.
Kentucky 36/	2001-104 & 141	Kentucky Utilities, Louisville Gas and Electric
Kentucky 36/	2002-485	Jackson Purchase Energy Corporation
Florida 50/ 54/	030157-EI	Progress Energy Florida

Michael J. Majoros, Jr.

Clients

1/ New Jersey Rate Counsel/Advocate	33/ Michigan Attorney General
2/ West Virginia Consumer Advocate	34/ New Mexico Attorney General
3/ Pennsylvania OCA	35/ Environmental Protection Agency Enforcement Staff
4/ Florida Office of Public Advocate	36/ Kentucky Attorney General
5/ Toms River Fire Commissioner's	37/ North Dakota Public Service Commission
6/ Iowa Office of Consumer Advocate	38/ Kansas Industrial Group
7/ D.C. People's Counsel	39/ City of Witchita
8/ Maryland's People's Counsel	40/ Kansas Citizens' Utility Rate Board
9/ Idaho Public Service Commission	41/ NIPSCO Industrial Group
10/ Western Burglar and Fire Alarm	42/ Hawaii Division of Consumer Advocacy
11/ U.S. Dept. of Defense	43/ Nevada Bureau of Consumer Protection
12/ N.M. State Corporation Comm.	44/ GCI
13/ City of Philadelphia	45/ Wisc. Citizens' Utility Rate Board
14/ Resorts International	46/ Vermont Department of Public Service
15/ Woodlake Condominium Association	47/ Oklahoma Corporation Commission
16/ Illinois Attorney General	48/ National Association of Utility Consumer Advocates
17/ Mass Coalition of Municipalities	49/ Nova Scotia Utility and Review Board
18/ U.S. Department of Energy	50/ Florida Office of Public Counsel
19/ Arizona Electric Power Corp.	51/ Maryland Public Service Commission
20/ Kansas Corporation Commission	52/ MCI
21/ Public Service Comm. – Nevada	53/ Transmission Agency of Northern California
22/ SC Dept. of Consumer Affairs	54/ Florida Industrial Power Users Group
23/ Georgia Public Service Comm.	
24/ Delaware Public Service Comm.	
25/ Conn. Ofc. Of Consumer Counsel	
26/ Arizona Corp. Commission	
27/ AT&T	
28/ AT&T/MCI	
29/ IN Office of Utility Consumer Counselor	
30/ Unitel (AT&T – Canada)	
31/ Public Interest Advocacy Centre	

Snavely King - Electric Plant Tours

Kansas

Company:	Western Resources, Inc.
Plants:	Jeffrey, Lawrence, LaCygne
Docket No.:	01-WSRE-436-RTS
Dates:	February 24, 2001 – March 1, 2001
SK Attendees:	Michael J, Majoros, Jr., William M. Zaetz

Indiana

Company:	Northern Indiana Public Service Company
Plant:	Schahfer, Michigan City, Bailly, Mitchell
Cause No.:	41746
Dates:	August 23, 2001
SK Attendees:	Michael J. Majoros, Jr.

Company:	PSI Energy, Inc.
Plants:	Noblesville, Cayuga, Wabash River, Edwardsport, Gibson, Gallagher, Markland
Cause No.:	42359
Date:	2003
SK Attendees:	Michael J. Majoros, Jr.

Georgia

Company:	Georgia Power Company
Plant:	McIntosh
Docket No.:	18300-U, 15392-U, 15393-U
Dates:	September 2004
SK Attendees:	Michael J. Majoros, Jr., William M. Zaetz

Nevada

Company:	Nevada Power Company
Plants:	Reid Gardner, Clark, Sunrise
Docket No.:	01-10001, 01-10002
Dates:	January 16, 2002
SK Attendees:	William M. Zaetz

Snavely King - Electric Plant Tours

Florida

Company:	Gulf Power Company
Plant:	Smith
Docket No.:	010949-EL
Date:	2002
SK Attendees:	William M. Zaetz

Nova Scotia, CN

Company:	Nova Scotia Power Incorporated
Plant:	Tuft's Cove, Burnside, Onslow Substation, Trenton, Lingan, Glace Bay, Ragged Lake Energy Control Centre
Docket No.:	EMO NSPI
Date:	2003
SK Attendees:	Michael J. Majoros, Jr.

Progress Energy Florida, Inc.
Docket No. 041272-EI
Summary of PEF's Basic Estimates
($ Millions)

		System		Retail	
1	Total Estimated Storm Related Costs	$ 366.3	1/	$ 346.6	1/
2	Estimated "Normal" Capital Costs	54.9	1/	50.1	1/
3	Estimated Storm Related O&M Costs	240.1	2/	228.6	2/
4	Estimated "Extraordinary" Capital Costs	71.3	3/	67.9	4/
5	Total Estimated Costs Included in Storm Recovery Claim	311.4	1/	296.5	1/
6	Less: December 31, 2004 Storm Reserve Balance	46.9	1/	44.7	1/
7	Total Storm Damage Cost Recovery Claim	$ 264.5		$ 251.8	

1/ Response to Staff Interrogatory 1-5.
2/ Line 5 - Line 4
3/ Exhibit___(MVW-1), page 1 of 15. Capital Tax less Capital Book.
4/ System estimate of $71.3 million multiplied by Retail Separation Factor of 0.95220 shown in response to Staff Interrogatory 1-5, line 6.

Progress Energy Florida, Inc.
Docket No. 041272-EI
Depreciation Cost of Reserve
At September 2004

	Cost of Removal End Reserve
Transmission	$ 162,970,209
Distribution	365,070,144
Total Transmission & Distribution	$ 528,040,353

Source: Depreciation COR Reserve Detail, bates pages PEF-SR-10630 to 10631.

Progress Energy Florida, Inc.
Docket No. 041272-EI

Comparison of Non-Recoverable O&M

Classification	Sum of Jan - Oct 04 Total	Sum of Jan - Oct 04 Monthly Avg.	Sum of Jan - Dec 03 Total	Sum of Jan - Dec 03 Monthly Avg.	Monthly Avg. Difference
Steam Ops	26,406,395	2,640,640	30,771,231	2,564,269	76,370
Steam Maint	37,088,114	3,708,811	48,477,950	4,039,829	(331,018)
Nuclear Ops	33,532,550	3,353,255	43,390,087	3,615,841	(262,586)
Nuclear Maint	25,541,426	2,554,143	33,711,639	2,809,303	(255,161)
Oth Prod	31,792,683	3,179,268	43,695,736	3,641,311	(462,043)
Non-Red Pur Pwr-WH	14,327,815	1,432,782	16,747,901	1,395,658	37,123
Transmission	19,858,477	1,985,848	27,102,065	2,258,505	(272,658)
Distribution	57,253,377	5,725,338	79,124,709	6,593,726	(868,388)
Cust Accounts	40,023,344	4,002,334	47,569,877	3,964,156	38,178
Cust Service	5,557,528	555,753	8,765,832	730,486	(174,733)
A&G	151,089,286	15,108,929	202,478,669	16,873,222	(1,764,294)
Grand Total	442,470,995	44,247,100	581,835,696	48,486,308	(4,239,209)

Source: Company response to Staff 1st Set of Interrogatories, Question 7.

7. Please provide a schedule showing both jurisdictional and non-jurisdictional Operation and Maintenance Expense by month, by account, for the twenty four month period ending October 31, 2004.

Answer:

Please see Attachment C to these answers.

Progress Energy Florida
Non-Recoverable O&M by Jurisdiction for Nov 02 - Oct 04

Sum of Jan-Oct04			
Classification	Total	Retail	WH
Steam Ops	26,406,395	24,993,950	1,412,445
Steam Maint	37,088,114	36,219,881	868,233
Nuclear Ops	33,532,550	32,176,829	1,355,721
Nuclear Maint	25,541,426	24,943,501	597,925
Oth Prod	31,792,683	23,705,260	8,087,423
Non-Rec Pur Pwr - WH	14,327,815	-	14,327,815
Transmission	19,858,477	14,320,941	5,537,536
Distribution	57,253,377	57,096,651	156,726
Cust Accts	40,023,344	39,837,175	186,169
Cust Svc	5,557,528	5,557,528	
A&G	151,089,286	142,164,823	8,924,462
Grand Total	442,470,994	401,016,539	41,454,455

Sum of Jan-Dec 03			
Classification	Total	Retail	WH
Steam Ops	30,771,231	29,125,317	1,645,914
Steam Maint	48,477,950	47,343,081	1,134,869
Nuclear Ops	43,390,087	41,635,826	1,754,261
Nuclear Maint	33,711,639	32,922,449	789,189
Oth Prod	43,695,736	32,580,414	11,115,321
Non-Rec Purc Pwr -WH	16,747,901	-	16,747,901
Transmission	27,102,065	19,544,654	7,557,411
Distribution	79,124,709	78,908,112	216,597
Cust Accts	47,569,877	47,348,605	221,272
Cust Svc	8,765,832	8,765,832	
A&G	202,478,669	190,518,765	11,959,903
Grand Total	581,835,697	528,693,057	53,142,640

Sum of Nov-Dec02			
Classification	Total	Retail	WH
Steam Ops	4,678,050	4,427,827	250,223
Steam Maint	4,028,941	3,934,623	94,318
Nuclear Ops	6,175,657	5,925,975	249,682
Nuclear Maint	6,638,045	6,482,649	155,397
Oth Prod	10,285,036	7,668,728	2,616,307
Non-Rec Pur Pwr -WH	2,252,080	-	2,252,080
Transmission	4,363,161	3,146,494	1,216,668
Distribution	11,962,049	11,929,304	32,745
Cust Accts	8,760,519	8,719,769	40,750
Cust Svc	1,777,201	1,777,201	-
A&G	27,373,252	25,756,384	1,616,869
Grand Total	88,293,992	79,768,954	8,525,038

Separation Factors:	Retail	WH
Steam Ops	94.651%	5.349%
Steam Maint	97.659%	2.341%
Nuclear Ops	95.957%	4.043%
Nuclear Maint	97.659%	2.341%
Oth Prod	74.562%	25.438%
Non-Rec Pur Pwr-WH	0.000%	100.000%
Trans	72.115%	27.885%
Distrib	99.726%	0.274%
Cust Accts	99.535%	0.465%
Cust Svc	100.000%	0.000%
A&G	94.093%	5.907%

Note: Non-recoverable O&M excludes all recoverable fuel, purchase power, capacity, ECCR and ECRC amounts.
Minor differences in retail amounts presented here compared to Surveillance Reports might occur due to the methods used to summarize categories and the use of composites in separation factors.

Prepared by: Holdstein 12/08/04
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Attachment C

7. Referring to witness Wimberly's direct testimony, page 7, lines 12-14, state the amount of budgeted monthly salary O&M expense plus budgeted overtime O&M expense for full-time, part-time and contract employees that was included in the 2004 and 2005 budget that is included in PEF's request for storm recovery.

Please see Attachment B for the budgeted monthly salary and overtime O&M expenses for 2004 and 2005. PEF has not deducted its budgeted O&M expenses from the extraordinary storm-related expenses it proposes to recover in this case. The extraordinary storm-related expenses that were incurred as a result of Hurricanes Charley, Frances, Ivan, and Jeanne were not anticipated, could not be anticipated, and were not budgeted. Non-catastrophic storm-related expenses were anticipated through the annual accrual to the Storm Damage Reserve but PEF deducted the accrued reserve from the storm-related expenses it seeks to recover and PEF does not seek to replenish the reserve in this case.

PEF seeks to recover only those storm-related expenses that exceed the reserve in accordance with the Commission's policy for accounting for such expenses under which the Company includes all actual repair activities and those activities directly associated with storm damage and restoration activities in expenses charged to the Storm Damage Reserve, as explained on page 10 of Javier Portuondo's testimony in Docket No. 041272-EI and as approved by the Commission in Docket 930867-EI.

Direct costs typically are payroll, transportation, materials and supplies, and other services necessary to locate and repair or replace damaged property. Payroll includes labor charges for those employees involved in actual repair activities as well as those in support roles such as customer service, engineering, storeroom, and transportation personnel. The following is a list of examples of the type of costs the Company charges to the storm damage reserve: (1) Labor costs – including overtime or premium pay for employees dedicated to repair activities such as line crews, storeroom, engineering, and transportation personnel, payroll loading for associated taxes, administrative costs, and employee benefits; (2) Materials and supplies – all materials and supplies (M&S) used for the temporary or permanent repair or replacement of facilities, including a standard loading factor to cover the administration of M&S inventories and the cost of preparing, operating, and staffing temporary staging facilities for materials and supplies distribution; (3) Outside Services – including reimbursement costs to other utilities and payment to subcontractors dedicated to restoration activities; (4) Transportation costs – including operating costs, fuel expense, and repair and maintenance of Company fleet and/or rented vehicles; (5) Damage assessment costs – including surveys, helicopter line patrols, and operation of assessment and control facilities; (6) Costs associated with the rental and/or operation and maintenance of any equipment used in direct support of restoration activities such as communication equipment, office equipment, computer equipment, etc.; (7) Costs associated with injuries and damages to personnel and/or their property as a direct result of restoration activities; (8) Costs of temporary housing for restoration crews and support personnel and their related subsistence costs; (9) Storm preparation costs – including information costs and training for Company employees; (10) Fuel and related costs for back-up generators; (11) Costs of customer service personnel, phone center personnel, and other division personnel dedicated to customer service needs and locating and prioritizing areas of damage; (12) Special advertising and media costs associated with customer information, public education and/or safety; (13) Special employee assistance – including cost of cash advances, housing and/or subsistence for employees and families to expedite their return to work; (14) Identifiable bad debt write-offs due to storm damage; and (15) any other appropriate cost directly related to storm damage and restoration activities.

These direct costs represent the replacement cost method that was the basis for the Company's all risk coverage when transmission and distribution ("T&D") coverage was available, as explained in the testimony of John Scardino in Docket No. 930867-EI at pages 4 and 5. Mr. Scardino further explained at page 13 of his testimony that the self insurance program proposed by the Company and accepted by the Commission was a replacement of its current insurance program with the cost of the self insurance program to be borne by all customers. The Storm Damage Reserve under the Company's self insurance plan covered, according to Mr. Scardino at page 9, all losses incurred not otherwise covered by insurance for any destructive acts of nature. The Commission agreed in PSC Order No. PSC-93-1522-FOF-EI, at page 3, ruling that the Storm Damage Reserve would be used to cover storm damage experience for all losses not covered by insurance, including Transmission and Distribution lines and deductibles associated with other property insurance.

In Order No. PSC-93-1522-FOF-EI, at page 5, the Commission further required the Company to file a study to determine the appropriate storm damage expense to be accrued to the reserve. PEF filed its Study for Storm Damage Accrual, and at page 9, the Company made clear that it proposed to use a replacement cost methodology consistent with its prior coverage under traditional T&D all risk insurance. The Company explained, also at page 9, that the "replacement cost approach assumes that the total cost of restoration and related activities will be charged against the storm damage reserve." Only indirect costs would not be charged to the reserve but all direct costs, typically payroll, transportation, materials and supplies, and other services necessary to locate and repair or replace damaged property, would be charged to the reserve. At Exhibit 3 to its Study, the Company provided a detailed list of the types of costs the Company believed would be directly associated with storm damage and restoration activities. This list mirrors the list of costs identified above and in the testimony of Mr. Portuondo in this docket. PEF's Study was filed with the Commission on March 17, 1994, in accordance with the Commission's Order in Docket No. 930867-EI.

PEF's Study for Storm Damage Accrual was received without objection by the Commission and, in Order No. PSC-94-0852-FOF-EI in Docket No..94061-EI dated July 13, 1994, the Commission approved an increase in the annual accrual to the Storm Damage Reserve based on PEF's Study. Consistent with Commission policy in Orders No. PSC-93-1522-FOF-EI and No. PSC-94-0852-FOF-EI regarding what costs can be charged against the Storm Damage Reserve, the Company has charged all direct costs associated with Hurricanes Erin (1995), Floyd (1999), and Gabrielle (2001) against the Storm Damage Reserve.

The nature of the direct costs incurred by the Company as a result of Hurricanes Charley, Frances, Ivan, and Jeanne are no different from the direct costs identified in the testimony of John Scardino in Docket No. 930867-EI, the Company's Study filed with the Commission in accordance with the Commission's Order in Docket No. 930867-EI, and the costs incurred by the Company in Hurricanes Erin, Floyd, and Gabrielle and charged against the Storm Damage Reserve without question. Consistent with prior Commission policy, all costs directly associated with the Company's storm damage restoration and related activities for Hurricanes Charley, Frances, Ivan, and Jeanne have been and should be charged to the Storm Damage Reserve and recovered from the customers who benefited from the activities related to the Company's storm restoration efforts.

23. Referring to the direct testimony of witness Portuondo, Exhibit JP-1, state the FPSC order numbers that approved PEF's storm damage recovery expenses for Hurricanes Erin (1995), Floyd (1999) and Gabrielle (2001). If no such order exists, provide the basis for the recovery of such expenses.

In Docket 930867-EI, PSC Order No. PSC-93-1522-FOF-EI, the Commission authorized PEF to establish a Storm Damage Reserve on its books and to accrue funds annually to the Reserve from base rates to cover the Company's storm related costs. Since the costs of Hurricanes Erin, Floyd and Gabrielle did not exceed the storm recovery reserve balance, no further Commission action was required.

Progress Energy Florida, Inc.
Docket No. 041272-EI

Calculation of Base Salaries Included in Storm Damage Claim
for Charley, Frances, Ivan, Jeanne and Final Sweeps
<u>Through November 2004</u>

<u>Legal Entity Florida</u>	
Bargaining Unit - Regular Pay	$ 4,084,100
Non-Exempt - Regular Pay	1,026,331
<u>Service Company</u>	
Non-Exempt - Regular Pay	347.737
Total Base Salaries	$ 5,458,168

<u>Legal Entity Florida</u>	
Exempt - Regular Pay	$ 4,646,644
<u>Service Company</u>	
Exempt - Regular Pay	1,753,655
Total Exempt Base Salaries	$ 6,400,299

Source: Staff Interrogatory 1-11, Attachment E.

11. Please provide separately the amount of regular pay and overtime pay of company personnel that was charged to the storm damage reserve for each named storm.

Answer:

Please see Attachment E to these answers.

CHARGE BY LEGAL ENTITY FLORIDA ONLY
LABOR TO CHARLEY, FRANCES, IVAN, JEANNE AND FINAL SWEEPS
THROUGH NOVEMBER 2004

BARGAINING UNIT	Extended Pay		OVERTIME		DOUBLETIME		SPECIAL NO PAY	REGULAR PAY		PERCENTAGE	
CHARGE BY DEPARTMENT	Dollars	Hours	Dollars	Hours	Dollars	Hours	Hours	Dollars	Hours	Dollars	Hours
60185S - CORPORATE SVCS FLA	$0	0	$520,105	15,133	$964,856	20,262	0	$350,487	14,065	423.70%	251.70%
60197S - REAL ESTATE FLORIDA	$0	0	$2,092	54	$209	4	0	$1,486	57	154.80%	100.90%
60320S - NORTH CENTRAL REGION	$0	0	$679,641	19,770	$2,857,104	61,136	0	$494,926	20,134	714.60%	401.80%
60412S - SOUTH CENTRAL REGION	$0	0	$1,015,481	28,675	$3,115,349	65,324	0	$910,708	35,082	453.60%	268.50%
60425S - SOUTH COASTAL REGION	$0	0	$618,476	18,030	$2,218,221	48,336	0	$433,973	17,319	653.70%	383.20%
60501S - TRANSMISSION	$0	0	$724,680	20,262	$2,134,726	45,440	0	$838,275	33,514	341.10%	196.00%
60747S - FLA FGD	$0	0	$281,759	8,189	$197,141	3,806	0	$292,616	13,019	163.70%	92.00%
60756S - COMBUSTION TURBINE OPERATIONS	$0	0	$38,592	981	$18,362	335	0	$11,883	505	479.30%	260.50%
60834S - IT&T NETWORK SVCS - FLA	$0	0	$34,741	782	$31,338	529	0	$28,758	969	229.80%	135.30%
60867S - SYSTEMS PLANNING & OPS	$0	0	$40,254	773	$18,452	281	0	$1,517	82	3868.90%	1699.40%
60896S - DIST OPS & SUPPORT	$0	0	$787,571	25,375	$1,570,439	38,341	0	$322,971	15,922	730.10%	400.20%
60GB9S - CR3 NUCLEAR PLANT	$0	0	$261,177	6,516	$148,637	2,671	0	$130,437	5,788	314.20%	159.30%
60JY6S - NORTH COASTAL REGION	$0	0	$283,205	8,022	$1,417,958	30,240	0	$266,064	9,856	639.40%	384.30%
BARGAINING UNIT TOTAL	$0	0	$5,287,773	152,741	$14,692,892	316,703	0	$4,084,100	166,368	489.20%	282.20%

NON EXEMPT	Extended Pay		OVERTIME		DOUBLETIME		SPECIAL NO PAY	REGULAR PAY		PERCENTAGE	
CHARGE BY DEPARTMENT	Dollars	Hours	Dollars	Hours	Dollars	Hours	Hours	Dollars	Hours	Dollars	Hours
60121D - PRESIDENT-FLORIDA POWER	$0	0	$856	25	$0	0	0	$1,533	68	55.80%	37.20%
60185S - CORPORATE SVCS FLA	$0	0	$10,817	501	$0	0	0	$10,105	711	107.00%	70.50%
60228S - ENERGY DELIVERY SERVICES	$0	0	$143,469	5,595	$34,477	1,838	10	$131,956	7,672	134.80%	97.00%
60320S - NORTH CENTRAL REGION	$0	0	$110,036	4,109	$23,042	1,159	0	$89,054	5,089	149.40%	103.50%
60380S - FPC CUSTOMER SERVICE	$0	0	$445,201	20,083	$0	0	0	$317,529	21,158	140.20%	94.90%
60412S - SOUTH CENTRAL REGION	$0	0	$111,878	4,168	$18,649	935	0	$116,927	6,550	109.90%	77.90%
60425S - SOUTH COASTAL REGION	$0	0	$59,004	2,202	$13,831	732	0	$68,119	3,729	106.90%	78.70%
60440D - ENERGY DELIVERY ADMIN	$0	0	$114	4	$0	0	0	$1,418	66	8.00%	5.40%
60501S - TRANSMISSION	$0	0	$83,161	2,900	$6,236	356	0	$133,421	6,797	67.00%	47.90%
60728S - TSD EXECUTIVE DIRECTOR	$0	0	$1,379	50	$0	0	0	$3,920	212	35.20%	23.60%
60747S - FLA FGD	$0	0	$8,147	238	$54	3	0	$10,645	519	77.00%	46.00%
60756S - COMBUSTION TURBINE OPERATIONS	$0	0	$1,175	38	$0	0	0	$2,596	118	45.30%	32.20%
60867S - SYSTEMS PLANNING & OPS	$0	0	$760	29	$0	0	0	$1,758	97	43.20%	30.10%
60896S - DIST OPS & SUPPORT	$0	0	$61,673	2,394	$2,247	161	0	$68,229	3,849	93.70%	66.40%
60915S - ENERGY SVCS-SALES & SVCS	$0	0	$7,093	266	$909	51	0	$6,593	369	121.40%	85.80%
60GB9S - CR3 NUCLEAR PLANT	$0	0	$5,386	176	$0	0	0	$12,650	569	42.60%	30.90%
60HX6S - ED MANAGER BUSINESS OPERATIONS	$0	0	$1,905	70	$0	0	0	$1,563	86	121.90%	81.20%
60JE3S - CTE PROJECT MANAGEMENT	$0	0	$4,443	139	$64	3	0	$4,103	180	109.80%	78.90%
60JY6S - NORTH COASTAL REGION	$0	0	$60,004	2,406	$3,281	156	0	$44,209	2,608	143.20%	98.30%
NON EXEMPT TOTAL	$0	0	$1,116,500	45,391	$100,790	5,384	10	$1,026,331	60,448	118.60%	84.00%

EXEMPT	Extended Pay		OVERTIME		DOUBLETIME		SPECIAL NO PAY	REGULAR PAY		PERCENTAGE	
CHARGE BY DEPARTMENT	Dollars	Hours	Dollars	Hours	Dollars	Hours	Hours	Dollars	Hours	Dollars	Hours
60038S - TRANSMISSION-FPC	$7,370	206	$0	0	$0	0	11	$9,200	257	80.10%	84.60%
60121D - PRESIDENT-FLORIDA POWER	$0	0	$0	0	$0	0	28	$21,538	140	0.00%	20.00%
60185S - CORPORATE SVCS FLA	$20,664	588	$0	0	$0	0	187	$23,461	743	88.10%	104.30%
60197S - REAL ESTATE FLORIDA	$0	0	$0	0	$0	0	0	$863	42	0.00%	0.00%
60228S - ENERGY DELIVERY SERVICES	$545,316	19,469	$0	0	$0	0	1,563	$579,423	20,471	94.10%	102.70%
60303S - RCO ACCOUNT MGMT-SOUTH SECT	$0	0	$0	0	$0	0	0	$23,293	456	0.00%	0.00%
60320S - NORTH CENTRAL REGION	$364,900	10,889	$0	0	$0	0	3,531	$418,641	12,321	87.20%	117.00%
60380S - FPC CUSTOMER SERVICE	$96,465	3,226	$0	0	$0	0	1,172	$202,734	6,351	47.60%	69.20%
60412S - SOUTH CENTRAL REGION	$445,001	13,619	$0	0	$0	0	3,471	$568,569	16,722	78.30%	102.20%
60425S - SOUTH COASTAL REGION	$329,102	10,057	$0	0	$0	0	3,118	$387,830	11,186	84.90%	117.80%
60501S - TRANSMISSION	$450,276	12,758	$0	0	$0	0	2,423	$862,322	24,390	52.20%	62.20%
60728S - TSD EXECUTIVE DIRECTOR	$8,591	230	$0	0	$0	0	17	$17,219	513	49.90%	48.30%
60747S - FLA FGD	$15,523	412	$0	0	$0	0	258	$79,096	2,054	19.60%	32.80%
60756S - COMBUSTION TURBINE OPERATIONS	$9,253	215	$0	0	$0	0	135	$14,028	335	66.00%	104.40%
60834S - IT&T NETWORK SVCS - FLA	$5,871	147	$0	0	$0	0	140	$10,225	234	57.40%	122.40%
60867S - SYSTEMS PLANNING & OPS	$13,219	350	$0	0	$0	0	527	$41,616	898	31.80%	97.60%
60896S - DIST OPS & SUPPORT	$523,012	15,011	$0	0	$0	0	2,897	$682,999	18,453	76.60%	97.00%
60915S - ENERGY SVCS-SALES & SVCS	$66,224	2,018	$0	0	$0	0	212	$64,403	1,965	102.80%	113.50%
60GB9S - CR3 NUCLEAR PLANT	$120,712	3,020	$0	0	$0	0	619	$230,362	5,891	52.40%	61.80%
60HX6S - ED MANAGER BUSINESS OPERATIONS	$44,395	1,316	$0	0	$0	0	583	$104,568	2,868	42.50%	63.60%
60JE3S - CTE PROJECT MANAGEMENT	$4,913	109	$0	0	$0	0	204	$22,356	380	22.00%	82.40%
60JY6S - NORTH COASTAL REGION	$237,573	7,365	$0	0	$0	0	2,381	$281,895	7,736	84.30%	126.00%
EXEMPT TOTAL	$3,308,381	101,003	$0	0	$0	0	23,479	$4,646,644	134,527	71.20%	92.50%
GRAND TOTAL	$3,308,381	101,003	$6,404,273	198,132	$14,793,682	322,097	23,489	$9,767,076	361,343	251.2%	178.4%

COLUMN HEADING	DEFINITION
REGULAR PAY	Standard pay for 40 hour workweek.
OVERTIME	Pay at one and one-half times regular hourly rate for hours worked over 40 hours per week.
DOUBLETIME	For Bargaining Unit and Non Exempt employees, hours worked in excess of 16 consecutive hours until a rest period of at least 8 hours is taken. For Bargaining Unit employees, paid at double employee's regular hourly rate. For Non Exempt employees, paid at employee's regular hourly rate and is in addition to the standard hours and overtime hours worked during the workweek.
EXTENDED PAY	For Exempt employees who have a job value equal to $86,772 or lower, pay at regular hourly rate for hours worked over 40 hours per workweek during designated storm restoration periods as approved by senior management. First line supervisors who directly supervise craft/technical employees receive extended pay for time worked in excess of 45 hours per week.
SPECIAL NO PAY	For Exempt employees, hours worked in excess of 40 hours outside designated extended pay period. Also, the 5 hours between 40 and 45 for first line supervisors who receive extended pay for time worked in excess of 45 hours per week.
PERCENTAGE	Percentage of extended pay, overtime, doubletime and special no pay to regular dollars/hours.

NOTE: Detailed payroll reports by employee, FLSA status and storm available upon request

SERVICE COMPANY BILLED LABOR FOR CHARLIE, FRANCES, IVAN AND JEANNE
THROUGH NOVEMBER 2004

NON EXEMPT	Extended Pay		OVERTIME		DOUBLETIME		SPECIAL NO PAY	REGULAR PAY		PERCENTAGE	
CHARGE BY DEPARTMENT	Dollars	Hours	Dollars	Hours	Dollars	Hours	Hours	Dollars	Hours	Dollars	Hours
98789S - FL REG & PUBLIC AFFAIRS	$0	0	$1,289	42	$0	0	0	$2,405	123	53.60%	34.60%
98A11D - PRES & CEO-PGN	$0	0	$21	1	$0	0	0	$234	11	8.90%	6.90%
98A13D - PRESIDENT-SERVICE COMPANY	$0	0	$140	4	$0	0	0	$1,150	48	12.20%	7.70%
98BD1D - FINANCIAL SERVICES SR VP - CHG	$0	0	$2	0	$0	0	0	$107	5	1.90%	1.20%
98CP7S - EC ECONOMIC DEVEL ADMIN	$0	0	$623	26	$0	0	0	$969	62	64.30%	42.80%
98CV5S - TX TAX DEPARTMENT	$0	0	$5,797	205	$382	21	0	$1,779	99	347.40%	228.00%
98FQ8S - PV FINANCE	$0	0	$1,859	70	$270	15	0	$240	14	885.40%	612.20%
98GB4S - CORP ENVIRON HEALTH&SAFETY	$0	0	$4,293	154	$2,553	140	0	$2,112	115	324.20%	254.10%
98GR6S - RE REAL ESTATE DEPARTMENT	$0	0	$6,643	208	$1,495	77	0	$6,936	333	117.30%	85.60%
98GZ9S - FIN PLANNING AND REG SVCS	$0	0	$267	12	$0	0	0	$0	0	100.00%	100.00%
98HR6S - RISK MANAGEMENT DEPARTMENT	$0	0	$53	2	$0	0	0	$530	23	10.00%	6.70%
98T61S - AD ACCOUNTING DEPARTMENT	$0	0	$15,674	552	$9,319	402	0	$16,790	799	148.90%	119.40%
98W80S - AUDIT SERVICES	$0	0	$96	4	$0	0	0	$1,035	49	9.30%	8.80%
98WCBS - CS CORPORATE SERVICES	$0	0	$372,611	10,327	$215,744	8,502	0	$230,059	9,925	255.70%	189.70%
98WSDS - IT & TELECOM DEPT	$0	0	$55,966	1,521	$16,564	582	0	$45,187	1,925	160.50%	109.30%
98X10S - LD LEGAL	$0	0	$10,353	348	$7,603	372	0	$14,044	749	127.80%	96.10%
98X19S - CC CORPORATE COMMUNICATIONS	$0	0	$4,865	208	$540	33	0	$9,861	700	54.80%	34.50%
98X30S - PUBLIC AFFAIRS	$0	0	$394	16	$0	0	0	$1,321	79	29.80%	20.40%
98X61S - HR HUMAN RESOURCES	$0	0	$7,010	259	$1,211	66	0	$12,920	730	63.60%	44.50%
98XPHS - CS CORPORATE SECURITY	$0	0	$498	25	$174	13	0	$56	4	1196.00%	900.00%
NON EXEMPT TOTAL	$0	0	$488,454	13,984	$255,854	10,222	0	$347,737	15,793	214.00%	153.30%

EXEMPT	Extended Pay		OVERTIME		DOUBLETIME		SPECIAL NO PAY	REGULAR PAY		PERCENTAGE	
CHARGE BY DEPARTMENT	Dollars	Hours	Dollars	Hours	Dollars	Hours	Hours	Dollars	Hours	Dollars	Hours
98141S - FL PWR FINANCIAL SVCS-ADMIN	$0	0	$0	0	$0	0	102	$8,422	105	0.00%	96.90%
98789S - FL REG & PUBLIC AFFAIRS	$3,998	135	$0	0	$0	0	142	$34,334	663	11.60%	41.70%
98A11D - PRES & CEO-PGN	$430	15	$0	0	$0	0	6	$6,799	16	6.30%	132.30%
98A13D - PRESIDENT-SERVICE COMPANY	$0	0	$0	0	$0	0	1	$909	4	0.00%	25.00%
98CP7S - EC ECONOMIC DEVEL ADMIN	$18,598	476	$0	0	$0	0	37	$17,661	556	105.30%	92.20%
98CV5S - TX TAX DEPARTMENT	$3,420	111	$0	0	$0	0	3	$1,895	48	180.50%	237.60%
98DW1S - SP STRATEGIC PLANNING	$278	7	$0	0	$0	0	58	$4,708	88	5.90%	73.70%
98FQ8S - PV FINANCE	$1,785	65	$0	0	$0	0	7	$1,427	45	125.10%	156.90%
98GB4S - CORP ENVIRON HEALTH&SAFETY	$184,310	4,865	$0	0	$0	0	647	$133,998	3,577	137.50%	154.10%
98GR6S - RE REAL ESTATE DEPARTMENT	$5,260	222	$0	0	$0	0	15	$4,489	204	117.20%	116.20%
98GZ9S - FIN PLANNING AND REG SVCS	$18,716	484	$0	0	$0	0	31	$20,953	609	89.30%	84.50%
98HR6S - RISK MANAGEMENT DEPARTMENT	$4,346	125	$0	0	$0	0	67	$8,439	211	51.50%	90.90%
98T01S - TR TREASURY DEPARTMENT	$0	0	$0	0	$0	0	0	$157	5	0.00%	6.80%
98T61S - AD ACCOUNTING DEPARTMENT	$26,453	781	$0	0	$0	0	37	$20,106	590	131.60%	138.70%
98W80S - AUDIT SERVICES	$35,397	854	$0	0	$0	0	205	$43,831	1,029	80.80%	102.90%
98WCBS - CS CORPORATE SERVICES	$230,895	6,337	$0	0	$0	0	1,830	$336,756	8,440	68.60%	96.80%
98WSDS - IT & TELECOM DEPT	$406,859	12,212	$0	0	$0	0	1,697	$775,578	21,580	52.50%	64.40%
98X10S - LD LEGAL	$55,378	1,663	$0	0	$0	0	97	$30,287	924	182.80%	190.50%
98X19S - CC CORPORATE COMMUNICATIONS	$77,213	2,344	$0	0	$0	0	1,059	$162,683	4,249	47.50%	80.10%
98X30S - PUBLIC AFFAIRS	$2,396	88	$0	0	$0	0	259	$36,234	829	6.60%	41.80%
98X61S - HR HUMAN RESOURCES	$84,250	2,533	$0	0	$0	0	527	$103,006	3,006	81.80%	101.80%
98XPHS - CS CORPORATE SECURITY	$47,900	1,476	$0	0	$0	0	30	$973	157	4921.70%	956.60%
EXEMPT TOTAL	$1,207,883	34,789	$0	0	$0	0	6,859	$1,753,655	46,935	68.90%	88.70%
GRAND TOTAL	$1,207,883	34,789	$488,454	13,984	$255,854	10,222	6,859	$2,101,392	62,728	92.9%	105.0%

COLUMN HEADING	DEFINITION
REGULAR PAY	Standard pay for 40 hour workweek.
OVERTIME	Pay at one and one-half times regular hourly rate for hours worked over 40 hours per week.
DOUBLETIME	For Non Exempt employees, hours worked in excess of 16 consecutive hours until a rest period of at least 8 hours is taken. For Non Exempt employees, paid at employee's regular hourly rate and is in addition to the standard hours and overtime hours worked during the
EXTENDED PAY	For Exempt employees who have a job value equal to $86,772 or lower, pay at regular hourly rate for hours worked over 40 hours per workweek during designated storm restoration periods as approved by senior management. First line supervisors who directly supervise craft/technical employees receive extended pay for time worked in excess of 45 hours per week.
SPECIAL NO PAY	For Exempt employees, hours worked in excess of 40 hours outside designated extended pay period. Also, the 5 hours between 40 and 45 for first line supervisors who receive extended pay for time worked in excess of 45 hours per week.
PERCENTAGE	Percentage of extended pay, overtime, doubletime and special no pay to regular dollars/hours.

NOTE: Detailed payroll reports by employee, FLSA status and storm available upon request.

Progress Energy Florida, Inc.
Docket No. 041272-EI

Transportation Costs To Be Excluded From Storm Recovery Claim

Depreciation	$	909,352
Fuel		701,796
MTC		1,560,600
Overhead		222,164
Total Included in Storm Recovery Claim	$	3,393,912
Less:		
1/2 Fuel		350,898
Total To Exclude From Claim	$	3,043,014

Source: Response to Staff Interrogatory 1-12.

12. Please provide the amount of costs by type, such as depreciation, O&M, overhead, etc., for company-owned vehicles that was charged to the storm damage reserve for each named storm.

Answer:

Progress Energy							
OVE Charges for Hurricanes							
Rate Analysts							
Hurricane	Project #	OVE Charges	Deprecation	Fuel	MTC	Overhead	Total
Charlie	20045183	1,200,342	320,764	249,324	550,349	79,904	1,200,342
Frances	20045534	1,047,616	281,053	216,156	482,391	68,015	1,047,616
Ivan	20045850	51,357	13,989	10,320	24,043	3,005	51,357
Jeanne	20046082	1,094,598	293,546	225,996	503,817	71,240	1,094,598
		3,393,913	909,352	701,796	1,560,600	222,164	3,393,913

Progress Energy Florida, Inc.
Docket No. 041272-EI
Summary of Recommended Adjustments
($ Millions)

1	Company Requested Storm Costs (System)	$ 311.41	
	Less:		
2	Base Salaries	5.46	Exhibit___(MJM-6)
3	Salaries of Exempt Management	6.40	Exhibit___(MJM-6)
4	Vehicle Expense (except 1/2 of Fuel)	3.04	Exhibit___(MJM-7)
5	Tree Trimming	3.90	Wimberly Deposition, p. 62.
6	Call Center Expense		Unknown
7	Uncollectibles	2.25	Exhibit___(MVW-1), page 15.
8	Total Disallowed Expenses	21.05	
9	Adjusted Storm Costs	290.36	
	Less:		
10	Reserve Balance	(46.92)	
11	Pre-Tax System Expense that would produce 10% ROE	-113.88	
12	Storm Reserve Deficiency (System)	129.56	
13	Jurisdictional Factor	95.2%	
14	Retail Storm Reserve Deficiency	$ 123.34	