CONFIDENTIAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Approval of StormCost Recovery Clause for Recovery of Extraordinary Expenditures Related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.	Docket No: 041272-EI Filed: January 31, 2005

CONFIDENTIAL

DIRECT TESTIMONY AND EXHIBITS

OF

SHEREE L. BROWN

ON BEHALF OF

THE FLORIDA INDUSTRIAL POWER USERS GROUP

CONFIDENTIAL

DECLASSIFIED

5-27-05 (See Order PSC-05-0595-CFO)

CONFIDENTIAL

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 AND EXHIBITS OF SHEREE L. BROWN

INTRODUCTION

Q: PLEASE STATE YOUR NAME AND OCCUPATION.

A: My name is Sheree L. Brown and I am the President and Managing Principal of Utility Advisors' Network, Inc., located at 530 Mandalay Rd., Orlando, Florida 32809.

Q: PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A: I received a B. A. in Accounting from the University of West Florida and a Masters in Business Administration from the University of Central Florida. I am a Certified Public Accountant in the State of Florida.

I have been providing utility consulting services to municipal, cooperative, county, and institutional utilities and industrial and commercial consumers since 1981. My work has primarily focused in the areas of regulatory affairs, revenue requirements and costs of service, rates and rate design, deregulation and stranded costs, valuation and acquisition, feasibility studies, and contract negotiations.

Q: ON WHOSE BEHALF ARE YOU TESTIFYING?

A: I am testifying on behalf of the Florida Industrial Power Users Group ("FIPUG"). Members of FIPUG are large commercial and industrial users of electricity whose costs of providing service to their own customers are directly impacted by increases in the costs of electricity.

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A: The purpose of my testimony is to address the level of hurricane cost recovery Progress Energy Florida, Inc. ("PEF") seeks and explain to the Commission why the adjustments I propose in my testimony are fair and equitable to the company and consumers.

SUMMARY OF TESTIMONY

Q: PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY.

A: My testimony addresses the Stipulation and Settlement that PEF entered into in Florida Public Service Commission ("FPSC" or the "Commission") Docket No. 000824-EI (the "Settlement"). I describe the limitations of the Settlement on PEF's ability to seek cost recovery at this time. I further describe how PEF's accounting for storm damage costs and its cost recovery proposal would "game the system" by permitting it to recover excessive costs from ratepayers, while retaining ratepayer-provided funds due to cost decreases. My testimony addresses the following issues:

- PEF's proposed storm damage recovery clause ignores the terms of the Settlement.
- PEF's proposal seeks to hold PEF harmless from any damages related to the storms, while increasing costs to residents and businesses in PEF's service territory that have already absorbed storm damage costs of their own.

- PEF's proposal seeks 100% cost recovery from consumers, with no contribution from PEF, while PEF benefits from increased profits.
- PEF's claimed storm damage costs are excessive and include amounts that should have been allocated to normal operations and maintenance ("O&M") expenses.
- PEF has enjoyed higher earnings than it would have otherwise had due to reductions in O&M expenses to levels below the budgets included in establishing the current rates.
- PEF should be required to take into account revenues it received for assisting other utilities;
- PEF's interest calculations on the storm damage recovery clause do not provide an offset for the income tax benefits that PEF received for expensing the storm damage costs for tax purposes.

Lastly, in the event that the Commission does not interpret the Stipulation and Settlement to bar recovery at this time, I develop a recommended approach that balances the interests of PEF and its customers in a fair and equitable manner. I recommend that the Commission require PEF to immediately expense $142.7 million of its claimed storm damage costs and allow PEF to recover the balance of its claimed storm damage costs in the following manner:

TABLE 1
BREAKDOWN OF RECOMMENDED STORM COST RECOVERY ($ MILLIONS)

Total Claimed Storm Damage Costs	$366.3
Amount recovered from existing storm damage reserve	($46.9)
Amount capitalized to be considered in future rate proceedings	($54.9)
Amount immediately expensed	($142.7)
Amount to be recovered through a storm damage clause	$121.8

I explain how my proposal provides a fair and equitable resolution of the issues before the Commission by:

- Providing PEF with immediate recovery of appropriate costs;
- Limiting PEF's recovery to the amount that provides PEF with a return on equity of 10% for 2004, in accordance with the level of financial risk PEF assumed in the Settlement, while allowing PEF to earn in excess of this floor for 2005;
- Preventing PEF's manipulation of the regulatory system by eliminating the "double dipping" that would occur if PEF were allowed to recover costs through a recovery clause while recovering the same costs through base rates.

PEF'S PROPOSAL

Q: PLEASE DESCRIBE PEF'S PROPOSAL FOR RECOVERY OF ITS HURRICANE-RELATED COSTS.

A: PEF has already collected $46.5 million in storm damage costs through accruals to the storm damage reserve. PEF is seeking to recover an additional $251.9 million, plus interest, from its jurisdictional customers over a two-year period through a storm damage recovery clause. PEF's proposal assumes 100% recovery of its storm damage claim without any sharing of risk or equitable division of the costs between the company and its customers.

Q: WHAT IS THE TOTAL LEVEL OF COSTS THAT PEF SEEKS TO RECOVER FROM ITS CUSTOMERS?

A: PEF seeks recovery of $366.3 million that it claims were damages associated with hurricanes Charley, Frances, Ivan, and Jeanne. Of that amount, PEF booked

$311.4 million against the storm damage reserve and capitalized $54.9 million. As of the end of 2004, PEF had already collected $46.5 million from its customers in anticipation of storm damages. Of the remaining $264.9 million, PEF is seeking to recover $251.9 million from its retail ratepayers over the next two years through a storm damage recovery clause with interest applied to the outstanding balance at the commercial paper rate. PEF will seek to recover the $54.9 million of capitalized costs by including such costs in rate base in its future surveillance reports and its next base rate proceeding.

Q: HOW IS PEF TREATING THE STORM DAMAGE COSTS FOR TAX PURPOSES?

A: For tax purposes, PEF is expensing the hurricane damage costs. This results in PEF booking additional accumulated deferred income taxes, which is a source of cost-free capital for PEF.

PEF'S PROPOSAL IGNORES THE STIPULATION AND SETTLEMENT

Q: PLEASE DESCRIBE THE STIPULATION AND SETTLEMENT IN DOCKET NO. 000824-EI.

A: The Stipulation and Settlement in Docket No. 000824-EI (the "Settlement") set PEF's current rates, which became effective on May 1, 2002, and will continue through December 31, 2005. The Settlement also provided for a sharing of retail base rate revenues above a revenue cap. PEF may petition the Commission to amend the base rates only if earnings fall below a 10% return on equity as reported on an FPSC adjusted or pro-forma basis on a monthly earnings surveillance report. In addition to the revenue sharing, PEF is committed to providing a $3 million refund to customers in the event System Average Interruption Duration Index ("SAIDI") improvements are not achieved.

Q: HAVE PEF'S EARNINGS FALLEN BELOW THE 10% RETURN ON EQUITY LEVEL?

A: No. In fact, PEF's return on equity rose from 12.55% in July to 13.71% in September, 13.39% in October, and 13.61% in November. Therefore, the condition precedent set out in the Settlement has not been met and the balance of the deferred account would be considered in the next base rate proceeding, not via a new, separate recovery clause.

Q: HOW CAN YOU EXPLAIN THE INCREASE IN PEF'S EARNINGS DURING A PERIOD OF TIME IN WHICH IT WAS INCURRING SIGNIFICANT COSTS FOR HURRICANE DAMAGE?

A: PEF engaged in what I would term profitable "cost shifting." PEF's earnings rose because it shifted costs from normal O&M to the storm damage accrual account. PEF did not limit its charges to the storm damage accrual account to those costs that were incremental to its regular costs. Instead, PEF shifted its regular costs from normal O&M to the storm damage accrual account. Because O&M costs were reduced, PEF's earnings actually *rose* during the hurricane restoration period when it claims to have had these extraordinary expenses.

Q: WOULD PEF'S EARNINGS HAVE FALLEN BELOW THE 10% RETURN ON EQUITY FLOOR IF ALL THE STORM DAMAGE COSTS HAD BEEN CHARGED TO O&M?

A: Yes. Just as a reduction in O&M expenses increases PEF's return on equity, increases in O&M expenses decrease its return on equity. Thus, if PEF had not deferred its storm damage expenses, but had booked them to O&M expenses immediately, its return on equity would have been reduced significantly.

Q: WOULD PEF HAVE BEEN ELIGIBLE TO FILE FOR A RATE INCREASE UNDER THE TERMS OF THE SETTLEMENT IF PEF HAD BOOKED THE STORM DAMAGE COSTS TO O&M?

A: Yes. In that event, PEF would have been eligible to petition the Commission for an increase in base rates.

Q: WHY DIDN'T PEF JUST BOOK THE EXPENSES TO O&M AND FILE FOR A BASE RATE INCREASE?

A: Under the Commission's accounting rules, PEF may defer its uninsured losses by booking them to Account 228.1, Accumulated Provision for Property Insurance. Further, if PEF had just booked the expenses to O&M and filed for a rate increase, it would have had to absorb the total costs. Deferral was, therefore, a much more attractive option to PEF.

Q: WHY WOULD PEF HAVE HAD TO ABSORB THE TOTAL COSTS IF IT BOOKED THE EXPENSES TO O&M AND FILED FOR A BASE RATE INCREASE?

A: Given that rates are implemented on a prospective basis, any non-recurring expenses, such as the storm damage losses, would typically be removed through pro-forma adjustments. This would have eliminated PEF's recovery of the costs in a future rate period.

Q: WHAT WOULD HAPPEN IF THE COMMISSION JUST SET THE APPROPRIATE LEVEL OF THE DEFERRED EXPENSES AND THE ANNUAL AMORTIZATION?

A: Under the terms of the Settlement, any amortization taken for 2004 and 2005 would be totally absorbed by the Company.

Q: IF THE COMPANY'S PROPOSAL IS ACCEPTED BY THE COMMISSION, WILL PEF BEAR ANY OF THE LOSSES?

A: No. PEF's proposed special cost recovery clause would allow the Company to transfer the total cost burden to ratepayers while holding PEF harmless. If the Commission approves PEF's total request, it will allow PEF to recover 100% of its claimed storm damage costs from ratepayers while also boosting PEF's earnings from base rates at the ratepayers' expense.

Q: DOES THE SETTLEMENT BAR ANY RECOVERY OF PEF'S STORM DAMAGE COSTS AT THIS TIME?

A: This is a legal matter which will be argued and briefed by the attorneys in this case. I would note, however, that the Commission could develop a cost recovery methodology that would be fair and equitable to both the Company and its customers.

Q: WHAT CRITERIA SHOULD THE COMMISSION CONSIDER WHEN EVALUATING THE APPROPRIATE RATEMAKING TREATMENT FOR PEF'S STORM DAMAGE COSTS?

A: The appropriate ratemaking treatment for PEF's storm damage costs should be fair and equitable to both PEF and its ratepayers. It should consider the terms of the Settlement and PEF's earnings. The costs should be limited to those costs that exceed PEF's normal costs of operations and maintenance in order to protect ratepayers against the over-recovery that would occur if costs are shifted between base rate recovery and a special recovery clause.

Q: HOW SHOULD THE COMMISSION CONSIDER THE SETTLEMENT WHEN EVALUATING THE APPROPRIATE RATEMAKING TREATMENT FOR PEF'S STORM DAMAGE COSTS?

A: As I explained above, the Settlement set forth specific rates that were to be in effect through December 31, 2005 and permitted PEF to request a rate increase *only* if its return on equity fell below 10%. If costs are deferred and amortized, any amortization applied during the Settlement period would be absorbed by the Company. The Commission should thus consider PEF's earnings and a reasonable sharing of the costs in evaluating the appropriate ratemaking treatment.

Q: HAS THE COMMISSION CONSIDERED EARNINGS IN EVALUATING STORM DAMAGE RECOVERY?

A: Yes. In Order No. PSC-93-1522-FOF-EI, discussed below, the Commission recognized that a utility's earnings should be considered in the context of any storm damage request.

<u>PEF'S PROPOSAL IS NOT FAIR AND EQUITABLE, AS IT WOULD HOLD PEF HARMLESS FROM ANY STORM DAMAGE</u>

Q: SHOULD THE COMMISSION ALLOCATE ANY STORM DAMAGE COSTS TO PEF?

A: Yes. Residents and businesses all over Florida have been severely impacted by damages incurred from the hurricanes. FIPUG members have absorbed millions of dollars in damages. As a matter of public policy, it is unfathomable that PEF should be held totally harmless from the impacts of the hurricanes, while its customers bear their own losses, as well as 100% of PEF's losses.

Q: DID THE COMMISSION PRE-APPROVE 100% STORM DAMAGE RECOVERY IN THE EVENT THAT DAMAGES EXCEED THE STORM DAMAGE RESERVE BALANCE?

A: No. The Commission approved the use of an unfunded storm damage reserve to self-insure against transmission and distribution losses. In Order PSC-93-1522-FOF-EI at page 5, the Commission noted that "[n]o prior approval will be given for the recovery of costs to repair and restore T&D facilities in excess of the Reserve balance." In Order No. PSC-93-0918-FOF-EI, the Commission rejected a 100% pass-through proposal by FPL and stated:

> We believe it would be inappropriate to transfer all risk of storm loss directly to ratepayers. The Commission has never required ratepayers to indemnify utilities from storm damage. Even with traditional insurance, utilities are not free from risk. This type of damage is a normal business risk in Florida.

In addition, Rule 25-6.0143, Florida Administrative Code, provides for the charging of losses to Account 228.1, Accumulated Provision for Property Insurance. The rule does not define how losses are to be determined. Further, the rule does not establish the ratemaking treatment for recovery of such losses.

Q. HAS PEF FAIRLY ALLOCATED STORM DAMAGE BETWEEN ITSELF AND CONSUMERS?

A. No. PEF's proposal would require consumers to absorb 100% of the costs of the storms with no equitable apportionment. These are the same consumers whose homes and businesses were damaged by the hurricanes and who have had to absorb large losses themselves. PEF wants to recover dollar for dollar all storm expenses, including as discussed below, revenues for expenses it is recovering elsewhere.

Q. PUTTING ASIDE THE SETTLEMENT, ARE THERE OTHER REASONS THE COMMISSION SHOULD CONSIDER PEF'S EARNINGS IN DECIDING ON FAIR AND EQUITABLE RECOVERY FOR ALL PARTIES?

A. Yes. Before the Commission contemplates imposing a separate recovery charge on consumers, it should review PEF's earnings to determine if the utility has sufficient earnings to defray some or all of these costs. If PEF's earnings are in excess of a reasonable minimum earnings level, PEF should bear some of the costs before additional costs are transferred to consumers. In Order No. PSC-93-1522-FOF-EI at page 5, the Commission said:

> 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. (emphasis added)

Therefore, in determining the appropriate ratemaking treatment for storm damage costs, the Commission has indicated that a utility's earnings are a consideration. The Commission should consider the terms and conditions of the Settlement and PEF's earnings, as well as the prudence and reasonableness of PEF's claimed expenses.

<u>PEF'S CLAIMED STORM DAMAGE COSTS ARE EXCESSIVE BECAUSE THEY INCLUDE AMOUNTS WHICH ARE BEING RECOVERED THROUGH BASE RATES</u>

Q: ARE PEF'S CLAIMED STORM DAMAGE COSTS EXCESSIVE?

A: Yes. PEF's claimed storm damage costs are excessive because PEF has included ordinary operations and maintenance ("O&M") expenses in its calculation of storm damage costs. By including normal O&M costs in its storm damage claim, PEF is "gaming the system" to increase its total cost recovery. Ordinary O&M expenses should not be charged to a clause intended to recover "extraordinary" expenses, especially when such ordinary expenses are already funded through base rates.

Q: DOES INCLUDING NORMAL O&M COSTS IN THE STORM DAMAGE CLAIM INCREASE PEF'S TOTAL COST RECOVERY?

A: Yes. PEF's normal O&M costs were included in the development of its current base rates. Customers are, therefore, already paying for such costs through those rates. Since PEF is already recovering these normal costs through its base rates, any shifting of costs to a storm damage recovery clause allows PEF to recover these costs twice – once through the clause and again in base rates. Allowing PEF to shift normal O&M costs to a storm damage recovery clause would allow PEF to "double dip" by recovering the same costs twice.

Q, IS THIS TREATMENT CONSISTENT WITH PEF'S TREATMENT OF STORM DAMAGE COSTS IN ITS NORTH CAROLINA AND SOUTH CAROLINA RETAIL JURISDICTIONS?

A. No. In the North Carolina and South Carolina retail jurisdictions, PEF has limited its storm damage claims to incremental costs. In the response to FIPUG's Fifth Request for Production of Documents, No. 20, PEF provided correspondence between PEF and its accountants, Deloitte & Touche, regarding PEF's accounting for storm damage costs. One email included therein explained:

> **Per discussion with Bruce Barkley, our filing with the NCUC will be for $15M. It is composed of $11M related to the Hurricanes and $4M related to the ice storms. For the hurricanes, we will be can [sic] only request the incremental costs associated with the Hurricane. Approximately $1M was determined to [sic] normal costs (for labor, etc) that we would have incurred regardless of restoration efforts. (PEF-SR-10402)**

In addition, in its filing with the South Carolina Public Service Commission on December 22, 2004, Progress Energy Carolinas, Inc. ("PEC"), Len S. Anthony, PEC's Deputy General Counsel – Regulatory Affairs noted:

> Pursuant to Public Service Commission Order No. 2004-367(A) issued in Docket No. 2004-55-E, Progress Energy Carolinas, Inc. ("PEC") submits the actual storm damage expenses incurred by PEC associated with an ice storm that occurred in January 2004. The total system cost of the storm was $15,661,828. The total system *incremental* operating and maintenance costs were $13,161,657. The South Carolina jurisdictional portion of such *incremental* operating and maintenance costs were [sic] $9,073,667. (emphasis added)

CONFIDENTIAL

Q: HOW HAS PEF INCLUDED ORDINARY OPERATIONS AND MAINTENANCE EXPENSES IN ITS CALCULATION OF STORM DAMAGE COSTS IN THIS CASE?

A: As explained in PEF's response to FIPUG's First Set of Interrogatories, No. 1, PEF has not deducted its budgeted O&M expenses from the storm-related expenses it proposes to recover in this case. For example, labor charges to the storm damage account include normal, or ordinary, labor charges for PEF's work force that would have otherwise been charged to O&M, which is recovered from base rates. PEF has thus reduced its normal O&M expenses, which are covered by base rates, and has shifted these costs to hurricane damage accounts, for which it is requesting recovery through a surcharge .

Q: WHAT EVIDENCE DO YOU HAVE THAT PEF SHIFTED COSTS FROM ORDINARY O&M TO THE HURRICANE DAMAGE ACCOUNT?

A: PEF has provided numerous documents in discovery which show that PEF shifted costs from normal O&M into the storm damage account. Shifted costs included not only regular salaries and associated benefits, but also included contract labor and expenses, maintenance expenses, and even depreciation. Several examples were found in PEF's response to OPC Request for Production of Documents, Nos. 4 and 5. These documents are PEF's internal reports that show the differences, or "variances" between budgeted and actual costs incurred. A "favorable" variance indicates that PEF spent less than it had originally budgeted, while an "unfavorable" variance indicates that PEF spent more than it had originally budgeted. The reports were provided on a monthly basis through November, 2004. As explained earlier, as PEF shifted costs from O&M to the storm damage reserve, the normal O&M costs were reduced, resulting in a favorable variance. The following excerpts from those reports demonstrate this cost-shifting technique:

- "DOS [distribution operations and support] is favorable due to Bonnie, Charley, Frances and Ivan Storm Impact," (PEF-SR-10133);
- "Tree Trimming Contractor favorability $4.3M due to resources being utilized for Hurricane Restoration..." (PEF-SR-10131);
- "Payroll, Safety, and Training favorable due to storm $6.9 M," (PEF-SR-10062);
- "O&M was $31.5 million favorable primarily due to ....and Energy Delivery ($10.4 million; primarily due storm restoration costs associated with Hurricanes Charley, Frances and Jeanne as storm costs are charged to the storm reserve)...PEF Customer Service ($3.9 million; due to lower labor at the Customer Service Center due to vacancies and storm support as storm costs are charged to the storm reserve," (PEF-SR-10076);
- "Favorable primarily due to lower labor and maintenance costs due to storm preparation and restoration (storm costs are charged to the storm reserve)," (PEF-SR-00733);
- Charges for company owned-vehicles included $909,352 for depreciation, $1,560,600 for maintenance and $222,164 for overhead. Response to Staff Interrogatory No. 12;
- Through November, 2004, labor charges to the storm account included $9,757,075 regular PEF labor and $2,101,392 regular service company labor. Response to Staff Interrogatory No. 11.

CONFIDENTIAL

These excerpts show that PEF was well aware that its cost shifting resulted in favorable variances, which increase PEF's earnings from base rate revenues.

Q: DID YOU OBSERVE THIS TREND IN REDUCED O&M EXPENSES IN ANY OTHER REPORTS YOU REVIEWED?

A: Yes. In response to Staff's First Set of Interrogatories, No. 8, PEF provided its monthly non-recoverable O&M by Federal Energy Regulatory Commission ("FERC") account for November 2002 through October 2004. In 2003, PEF's O&M costs averaged $48.5 million per month. From January through July 2004, PEF's O&M costs averaged $47.2 million. In August, O&M costs dropped to $40.5 million. O&M costs dropped further in September, to only $27.9 million. In October, O&M were still below average at $43.9 million.

<u>PEF'S COST SHIFTING RESULTED IN HIGHER EARNINGS</u>

Q: HOW DID THIS COST SHIFTING AFFECT PEF'S RATE OF RETURN CALCULATIONS THAT WERE PROVIDED TO THE COMMISSION IN THE MONTHLY SURVEILLANCE REPORTS?

A: As reported in PEF's surveillance reports, O&M expenses for the 12 months ending July 2004 were $571.9 million. The O&M expenses reported for the 12 months ending August, September, October, and November 2004 dropped to $561.0 million, $535.5 million, $527.4 million, and $521.8 million, respectively. When compared against the average monthly expenses for the 12 months ending July 2004, PEF's O&M expenses decreased $50.1 million for August through November 2004.

Q: WHAT HAPPENED TO PEF'S REPORTED RETURN ON COMMON EQUITY OVER THE PERIOD FROM JULY 2004 THROUGH OCTOBER 2004?

A: As shown in the July 2004 surveillance report, the return on common equity was 12.55%. The return on common equity rose to 13.02% in August, 13.71% in September, 13.39% in October, and 13.61% in November. This increase in return on equity was realized notwithstanding an increase of $312,602,817 in rate base for September and $303,117,565 in rate base for October associated with the storm damage accrual, which PEF included in working capital. (See PEF Response to FIPUG Interrogatory No. 28).

Q: WHAT FACTORS CAUSED THE INCREASE IN PEF'S RETURN ON COMMON EQUITY DURING THIS PERIOD OF TIME?

A: PEF's return on common equity was affected by several factors:

- Decreases in expenses increase the return on common equity. The shifting of costs from O&M to the storm damage reserve directly contributed to the increase in the return on equity.
- Decreases in revenues decrease the return on common equity. It should be noted that, during the same time frame, PEF had reduced revenues as a result of storm outages. Therefore, even though revenues were reduced, the reduced expenses more than offset such reduction in revenues allowing the returns to increase to over 13%. Further, even though the revenues were reduced, the revenues are still in excess of the revenue sharing cap established in the Settlement. PEF's reduction in revenues due to the

hurricane outages was thus shared between PEF and the ratepayers, as PEF's obligation to refund revenues to the ratepayers was reduced.

- Increases in rate base result in a decreased return on equity. PEF increased rate base by over $300 million in the storm damage reserve. Again, while this would cause the return on equity to decrease, PEF still realized an increase in the return on equity, further indicating that the shift in O&M costs had a greater impact than the reduction in revenues.
- Increases in the accumulated deferred income taxes (credit balance) provide a greater portion of PEF's capital at zero cost, resulting in a lower weighted average cost of capital. This would cause the return on equity to increase. The impact of this adjustment is much smaller than the impact due to the reduction in O&M costs.

Q. WHAT IS THE SIGNIFICANCE OF PEF'S HIGH RETURN ON EQUITY DURING THIS TIME PERIOD?

A. The significance of the rise in PEF's return on equity during the storm restoration period is that it demonstrates that PEF has manipulated its cost accounting to maximize returns from its current base rate revenues while seeking recovery of normal O&M costs through a storm damage recovery clause.

Q: SHOULD THE COMMISSION REQUIRE PEF TO ELIMINATE THE NORMAL LEVEL OF O&M COSTS FROM ITS CLAIMED STORM DAMAGE EXPENSES?

A: Yes. The Commission should reduce PEF's storm damage claim by the amount of normal O&M expenses that were shifted into the storm damage accounts. These costs should be expensed during the time period incurred. Any future expenses charged to the storm damage accounts which would be included in the recovery clause should be limited to verifiable incremental costs incurred over and above PEF's budgeted O&M.

REVENUES FROM OTHER UTILITIES FOR STORM DAMAGE ASSISTANCE

Q: HAS PEF ASSISTED OTHER UTILITIES WITH STORM DAMAGE REPAIRS?

A: Yes. PEF has assisted other utilities with storm damage repairs. In response to FIPUG Interrogatory No. 15, PEF provided information regarding costs it incurred in assisting Dominion Power with its restoration efforts after Hurricane Isabel. PEF billed Dominion Power a total of $1.7 million for its costs, including company labor and associated benefits and taxes. Payment was received in February 2004. This event occurred in September 2003 and PEF described this event as the last event in which PEF dispatched crews to assist another utility.

Q: WERE THESE COSTS ALSO RECOVERED FROM PEF'S RETAIL JURISDICTIONAL RATEPAYERS?

A: At least a portion of these costs would have been included in PEF's normal O&M costs. For example, PEF sent approximately 255 employees to assist in the Hurricane Isabel recovery efforts for 10 days. The normal hourly costs for these employees would have already been recovered through PEF's base rates. Of the total reimbursed by Dominion Power, $1.1 million was for PEF labor and associated taxes and benefits.

Q: DID PEF ASSIST OTHER UTILITIES WITH STORM DAMAGE REPAIRS?

A: Yes. PEF assisted Entergy in restoration efforts after Hurricane Lili in October, 2002. PEF also assisted PEC in storm restoration efforts.

Q: SHOULD PEF BE ALLOWED TO RETAIN THE REVENUES RECEIVED FOR ASSISTING OTHER UTILITIES IN THEIR STORM RESTORATION EFFORTS?

A: IF PEF is allowed to recover its storm damage costs through a recovery clause, it should not be allowed to retain the revenues received for assisting other utilities in their storm restoration efforts to the extent that the revenues were to reimburse PEF for normal O&M costs. This, again, would amount to "double dipping" and should be an offset to any storm recovery. The Commission should require PEF to offset the storm damage expenses by a portion of the revenues received from assisting other utilities in storm restoration efforts. The amount that should be offset should be equal to the revenues received for normal wages, benefits, and payroll taxes for employees involved in the restoration efforts. For future accounting purposes, PEF should be required to credit the storm damage reserve by revenues received for normal wages, benefits, and payroll taxes when assisting others in storm-related activities.

<u>OTHER CONCERNS WITH COST-SHIFTING</u>

Q: DO YOU HAVE ANY OTHER CONCERNS WITH POTENTIAL COST-SHIFTING DUE TO RECOVERY OF STORM DAMAGE COSTS THROUGH A SURCHARGE?

A: Yes. PEF has profited from savings in O&M costs which it has retained, yet when costs are greater than expected, it now seeks recovery outside of base rates. It also seems probable that many of the repairs made as a result of the hurricane damages were repairs that would have been made under PEF's normal maintenance schedules, but were accelerated as a result of the damage. This should allow PEF to reduce its O&M expenses in the future, thus allowing it to retain additional revenues from the customers. Lastly, PEF has been accruing a portion of the revenues received from ratepayers for the cost of removal of transmission and distribution equipment, yet none of the accrued cost of removal was applied to the storm damage costs.

Q: PLEASE EXPLAIN HOW PEF HAS PROFITED FROM O&M SAVINGS.

A: As acknowledged by PEF in Docket 000824-EI, the Company's transmission and distribution system has been in need of significant repairs. The Company thus increased its distribution and transmission O&M budgets to a total of $97.1 million and $34.3 million a year, respectively. As reported in PEF's 2002 and 2003 Federal Energy Regulatory Commission Form 1's, PEF's actual expenses were as follows:

TABLE 2

TRANSMISSION AND DISTRIBUTION O&M SAVINGS IN 2002 AND 2003

Operating and Maintenance Expense	Rate Case Annual Budget	Actual 2002	Actual 2003
Distribution	$97,100,000	$81,951,879	$92,963,867
Transmission	$34,300,000	$31,498,882	$27,658,972
O&M Savings		$17,949,239	$10,777,131

PEF thus realized transmission and distribution O&M savings of $17.9 million in 2002 and $10.8 million in 2003. Since PEF's distribution and transmission O&M costs are included in its base rates, any savings in O&M have been retained by the Company. Now, when costs are higher than anticipated due to the storms, PEF is "carving out" those higher costs for recovery through a surcharge.

Q: IS IT PROBABLE THAT PEF WILL ENJOY REDUCED FUTURE O&M COSTS DUE TO THE STORM DAMAGE RESTORATION EFFORTS?

A: Yes. As explained above, PEF's system has been in need of significant repairs and upgrades. In FPSC Docket 000824-EI, PEF witnesses set forth a plan for increasing the reliability of its transmission and distribution systems. This plan resulted in increases to PEF's anticipated O&M costs. It is doubtful that the hurricane damage was isolated to just those portions of the system that had already been repaired. It is also doubtful that PEF would have repaired damage to facilities that already needed repair only to their previous state of disrepair. Therefore, repairs made to facilities that were already in need of repair should reduce the need for future repair costs that would have otherwise been incurred.

Q: HOW MUCH HAS PEF ACCRUED FOR COST OF REMOVAL OF TRANSMISSION AND DISTRIBUTION EQUIPMENT?

A: As of September 2004, PEF had accrued $365 million for distribution cost of removal and $163 million for transmission cost of removal. To the extent that damaged equipment was removed and replaced early due to the hurricanes, PEF should be required to attribute such costs to the early retirement of those assets and the reserve should be adjusted accordingly.

Q: WHAT IS THE SIGNIFICANCE OF THESE OTHER CONCERNS WHEN DETERMINING AN APPROPRIATE RATEMAKING TREATMENT FOR PEF'S CLAIMED STORM DAMAGE COSTS?

A: If PEF is allowed to defer its claimed storm damage costs and recover those costs through a surcharge, PEF will have successfully gained at the expense of ratepayers by passing off any increases in costs, while retaining any decreases.

<u>PEF'S STORM DAMAGE RECOVERY SHOULD BE LIMITED TO THE AMOUNT THAT WOULD PROVIDE 10% RETURN ON EQUITY</u>

Q: YOU MENTIONED EARLIER THAT THE SETTLEMENT INCLUDED A PROVISION ALLOWING PEF TO SEEK A BASE RATE INCREASE IN THE EVENT THAT ITS RETURN ON EQUITY FELL BELOW 10%. SHOULD THE COMMISSION CONSIDER THIS PROVISION WHEN ESTABLISHING THE REASONABLE RATEMAKING TREATMENT FOR PEF'S STORM DAMAGE COSTS?

A: Yes. The Commission should recognize that PEF entered into the Settlement which established a 10% return on equity earnings floor as a reasonable "bottom line" of earnings before PEF would be entitled to an increase in rates. PEF should not be allowed to recover costs outside of its base rates as long as base rates are providing a return on equity in excess of the 10% return on equity floor. The storm damage recovery should be limited to that amount that would result in PEF earning the 10% floor return on equity.

Q: HOW WOULD PEF'S STORM COST RECOVERY BE DETERMINED BY APPLYING THE 10% RETURN ON EQUITY ?

A: Each month, PEF files a surveillance report with the Commission setting forth its revenues, expenses, rate base, cost of capital, and rate of return for the 12 months ending with the current month. To the extent that PEF's return on equity is in excess of 10%, PEF should be required to expense the level of its claimed storm damage costs that would result in a return on equity of 10%.

Q: HAS PEF CALCULATED THE CHANGE IN THE STORM DAMAGE RECOVERY LEVEL THAT WOULD BE APPLICABLE IF THE 10% RETURN ON EQUITY FLOOR WAS IMPLEMENTED?

A: Yes. In response to FIPUG Interrogatory No. 5, PEF provided calculations of the revised storm reserve deficiency in the event that the 10% return on equity floor was applied to the October 2004 surveillance report. As shown in that response, implementation of the 10% return on equity floor would reduce the storm reserve deficiency from the $264.5 million shown in the attachment to PEF Witness Portuondo's testimony on 05 Proj 02, to $150.6 million on a total system basis.

Q: DO YOU AGREE WITH PEF'S CALCULATIONS IN THE RESPONSE TO FIPUG INTERROGATORY NO. 5?

A: No. In making its calculations, PEF has overstated its rate base, causing an understatement in its actual return on equity before the adjustment. This results in an understatement of the adjustment to reach the 10% return on equity.

Q: PLEASE EXPLAIN.

A: In its response to FIPUG Interrogatory No. 28, PEF showed that it had included its storm damage work in progress in the working capital component of rate base. This adjustment caused an increase of $307.9 million to average rate base in October. Although PEF did not mention it in its response to FIPUG Interrogatory No. 28, I assumed that PEF's accumulated deferred income taxes, which are included in PEF's cost of capital at zero cost, were increased by PEF's tax rate of 38.575% on the portion of the total expenditures that were booked to O&M for tax purposes. Since PEF is removing this reserve from rate base and is proposing to collect interest on the outstanding balance, it would be appropriate to remove the total storm damage balance and the associated deferred income taxes from the calculation of PEF's returns. When these adjustments are made to the October calculations provided in PEF's October surveillance report, the return on equity increases to 14.25%. These calculations are shown in Exhibit__(SLB-1), page 1 of 2. In November, the Company's return on equity increased to 13.61%. When the Company's November calculations are corrected to remove the storm damage account and associated deferred income taxes, the return on equity increases to 14.41%. These calculations are shown on Exhibit__(SLB-1), page 2 of 2.

Q: HAVE YOU RECALCULATED THE STORM RESERVE DEFICIENCY WITH THE 10% RETURN ON EQUITY LIMITATION TO REMOVE THE STORM DAMAGE RESERVE AND ASSOCIATED DEFERRED INCOME TAXES?

A: Yes. Removal of the storm damage reserve from rate base and the associated deferred income taxes from the capital structure changes the storm reserve deficiency to $121.8 million when a 10% return on equity floor is implemented. These calculations are shown on Exhibit __(SLB-1), page 2 of 2. The reduction in the storm reserve deficiency would be $142.7 million, which would be immediately expensed by PEF, effectively reducing its return on equity to 10% for 2004.

Q: IS IT REASONABLE TO REDUCE THE STORM RESERVE DEFICIENCY FROM THE $264.5 MILLION PEF REQUESTED TO $121.8 MILLION?

A: Yes. The reduction of $142.7 million is approximately 39% of PEF's total storm damage claim of $366 million. By using this ratemaking methodology, the Commission can provide PEF with a return that meets the standards set forth in the Settlement. This methodology also prevents any "double-dipping" in 2004 by disallowing recovery of costs through base rates and the storm damage recovery clause, with the added advantage of limiting the need to isolate the amount of actual cost-shifting which occurred. Further, it provides a reasonable level of cost-sharing between PEF and its customers.

Q: HOW DOES THIS METHODOLOGY PREVENT THE DOUBLE-DIPPING ASSOCIATED WITH COST-SHIFTING IN 2004?

A: Any variances in PEF's expenses directly affects the return on equity earned. As explained above, PEF's return on equity increased to 13.71% in September 2004, due, in part, to the shifting of costs from O&M to the storm damage reserve. If these costs had not been shifted, PEF's rate of return would have been less. By limiting PEF's return on equity to 10%, the amount of the cost-shifting will be automatically eliminated. For example, if eliminating the actual amount of cost-shifting would have decreased PEF's return on equity from 13.71% to 12.0%, then the reduction would be encompassed within the return on equity limitation. The reduction in the return on equity would include two components: (1) the elimination of cost-shifting and (2) the sharing of storm damage costs. Differences in actual cost-shifting would change the portion of the reduction attributable to each component, but would not change the overall reduction. The result is still to provide PEF with a 10% return on equity, which was deemed to be a reasonable return on equity floor in the Settlement by the parties. Even if the Commission were to find the Settlement inapplicable here, the 10% return on equity limitation is a good gauge of what the parties thought was reasonable.

Q: DOES THIS METHODOLOGY PROVIDE A FAIR AND REASONABLE LEVEL OF COST-SHARING BETWEEN THE COMPANY AND ITS CUSTOMERS?

A: Yes. As indicated above, the total level of storm damages claimed by the Company was $366 million, of which $311.4 million were treated as O&M expenses, which were deferred into the storm damage account. The 10% return on equity limitation would result in PEF absorbing approximately 39% of its claimed storm damage costs. Since the costs PEF seeks to recover were not developed on an incremental basis, the level of storm damage costs PEF will actually absorb will be smaller than 39%. The Commission should also view the cost sharing in light of previous O&M savings enjoyed by the Company and potential cost savings it will enjoy as a result of repair costs that were accelerated and will no longer be incurred. Regardless of the level of cost sharing, PEF would be protected against earning below 10% return on equity and would be allowed immediate relief over a short period of time. Further, while this methodology limits PEF's return on equity for 2004, I have not recommended that PEF's returns be limited in 2005. This provides an added benefit to PEF.

Q: PLEASE EXPLAIN.

A: If the amortization of the storm damage account was treated as a base rate expense in 2005, the Company would not receive any additional revenues from its customers due to the Settlement. The Company would thus absorb the full amortization for 2005. By allowing the recovery to be accomplished through a surcharge, PEF is protected from having to absorb additional storm damage costs. The methodology I am recommending thus strikes a balance between the Company and ratepayers that is just and reasonable.

Q: DO YOU HAVE ANY OTHER CONCERNS WITH PEF'S CALCULATION OF THE STORM DAMAGE RECOVERY CLAUSE?

A: Yes. As shown on PEF Witness Portuondo's exhibits, 05 Proj P2, PEF has included interest on the outstanding balance of the storm damage account at the commercial paper rate. This fails to recognize that PEF expensed the storm damage costs for tax purposes and, therefore, should only be collecting interest on the net-of-tax balance of the storm damage account.

Q: WHAT IS THE IMPACT OF THIS INTEREST OVERSTATEMENT?

A: When calculated on the net-of-tax storm damage balances, the interest expense would be reduced by $3.2 million as shown in the table below. The interest calculations are shown on Exhibit__(SLB-2).

TABLE 3
BREAKDOWN OF INTEREST OVERSTATEMENT

Year	Interest per Witness Portuondo (05 Proj P2)	Recalculated Interest on the Net-of-Tax Storm Damage Account	Difference in Interest
2005	$6,233,298	$3,828,804	$2,404,494
2006	$2,077,767	$1,276,268	$801,499
Total	$8,311,065	$5,105,072	$3,205,993

RATE DESIGN

Q: DO YOU HAVE ANY CONCERNS REGARDING PEF'S ALLOCATION OF COSTS?

A: Yes. While the majority of PEF's claimed storm damage costs are demand-related, the storm cost recovery clause PEF proposes is based on an energy-only charge. This rate design shifts costs from the low load factor customers to the high load factor customers.

Q: SHOULD PEF BE REQUIRED TO MODIFY THE RATE DESIGN?

A: Yes. For purposes of the GSD, CS, and IS rates, the storm damage costs should be recovered through a demand charge.

Q: HAS THE COMPANY PROVIDED THE INFORMATION REQUIRED TO DESIGN THE RATE ON A DEMAND BASIS?

A: The Company provided estimated billing demands for each demand-metered customer class for 2005 and 2006 in response to FIPUG's Second Set of Interrogatories, No. 49. The billing demands were not broken down by voltage level. Therefore, the information provided in this case was insufficient to develop a demand rate for the classes at the individual voltage levels. A more detailed breakdown of billing demands was provided in Docket 000824-EI. Assuming the class demands are proportional to the billing demands in Docket 000824-EI, the revised rates could be calculated. Assuming that PEF's proposal was accepted, including the allocation of costs within rate classes, the demand rates would be as follows:

TABLE 4
DEMAND RATES UNDER PEF'S PROPOSAL

Class	2005	2006
GSD-1 Transmission	$1.61	$1.58
GSD-1 Primary	$1.24	$1.17
GSD-1 Secondary	$1.05	$.99
CS Primary	$1.90	$1.78
CS Secondary	$.91	$.85
IS Secondary	$1.17	$1.10
IS Primary	$.90	$.84
IS Transmission	$.69	$.64

Q: HAVE YOU CALCULATED THE REVISED STORM DAMAGE RECOVERY CLAUSE AMOUNTS REFLECTING YOUR RECOMMENDED ADJUSTMENTS?

A: Yes. Exhibit __(SLB-3) sets forth the costs to be recovered under the storm damage recovery clause, using the methodology employed by PEF Witness Portuondo, as adjusted to reflect the 10% return on equity limitation and interest applied to the net-of-tax outstanding balance. Exhibit__(SLB-3) was developed in the same format as Mr. Portuondo's allocation and rate design workpapers, 05 Proj P4.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes, it does.

Recalculation of PEF's Cost of Capital to Exclude the Storm Damage Account and Associated Deferred Income Taxes

October Average Cost of Capital

Item	Balance	Ratio	Cost Rate	WACC	Adjustments [1]	Revised COC	Revised Ratio	Revised WACC
Common	1,961,339,247	49.50%	12.00%	5.94%		1,961,339,247	50.68%	6.08%
Preferred	28,430,294	0.72%	4.51%	0.03%		28,430,294	0.73%	0.03%
LTD-Fixed	1,465,032,123	36.97%	5.67%	2.10%		1,465,032,123	37.85%	2.15%
STD	102,269,750	2.58%	1.54%	0.04%		102,269,750	2.64%	0.04%
Customer Deposits	105,172,581	2.65%	6.23%	0.17%		105,172,581	2.72%	0.17%
Inactive	522,659	0.01%	0.00%	0.00%		522,659	0.01%	0.00%
ITC						-	0.00%	0.00%
Equity	19,340,783	0.49%	11.89%	0.06%		19,340,783	0.50%	0.06%
Debt	14,240,276	0.36%	5.67%	0.02%		14,240,276	0.37%	0.02%
Subtotal						-	0.00%	0.00%
DIT	304,178,029	7.68%	0.00%	0.00%	(92,194,250)	211,983,779	5.48%	0.00%
109 DIT	(38,072,599)	-0.96%	0.00%	0.00%		(38,072,599)	-0.98%	0.00%
Total	3,962,453,143	100.00%		8.35%	(92,194,250)	3,870,258,893	100.00%	8.55%

	October Calculations Revised for Removal of Storm Damage Acct
Average Rate Base	3,962,453,143
Adjust for Storm Accruals	(307,860,191)
Remove Existing Storm Accrual	45,415,219
Revised Rate Base	3,700,008,171
Pro Forma Net Income	358,640,712
Average Rate of Return	9.69%
Less Other Capital Components	2.47%
Return for Equity	7.22%
Equity Ratio	50.68%
Return on Equity	14.25%

[1] Per Exhibit__(MVW-1), page 4, the Company had expensed $239 million of the storm damage costs for tax purposes. This would have resulted in a deferred income tax of $92,194,250.

Recalculation of PEF's Cost of Capital to Exclude the Storm Damage Account and Associated Deferred Income Taxes

November Average Cost of Capital

Item	Balance	Ratio	Cost Rate	WACC	Adjustments [1]	Revised COC	Revised Ratio	Revised WACC
Common	1,977,524,807	49.38%	12.00%	5.93%		1,977,524,807	50.54%	6.06%
Preferred	28,487,884	0.71%	4.51%	0.03%		28,487,884	0.73%	0.03%
LTD-Fixed	1,478,620,572	36.92%	5.63%	2.08%		1,478,620,572	37.79%	2.13%
STD	100,430,471	2.51%	1.70%	0.04%		100,430,471	2.57%	0.04%
Customer Deposits	105,745,499	2.64%	6.23%	0.16%		105,745,499	2.70%	0.17%
Inactive	514,916	0.01%	0.00%	0.00%		514,916	0.01%	0.00%
ITC						-	0.00%	0.00%
Equity	19,124,802	0.48%	11.89%	0.06%		19,124,802	0.49%	0.06%
Debt	14,096,784	0.35%	5.63%	0.02%		14,096,784	0.36%	0.02%
Subtotal						-	0.00%	0.00%
DIT	319,021,235	7.97%	0.00%	0.00%	(92,194,250)	226,826,985	5.80%	0.00%
109 DIT	(38,618,368)	-0.96%	0.00%	0.00%		(38,618,368)	-0.99%	0.00%
Total	4,004,948,402	100.00%		8.32%	(92,194,250)	3,912,754,152	100.00%	8.52%

November ROE Calculations with Adjustment Required to Limit ROE to 10%

	November Calculations Revised for Removal of Storm Damage Acct	Retail Adjustment to Limit ROE to 10%	Revised ROE Calculations
Average Rate Base	4,004,948,402		
Adjust for Storm Accruals	(303,117,565)		
Remove Existing Storm Accrual	45,415,219		
Revised Rate Base	3,747,246,056		
Pro Forma Net Income	364,669,066	(83,443,742)	281,225,324
Average Rate of Return	9.73%		7.50%
Less Other Capital Components	2.45%		2.45%
Return for Equity	7.28%		5.05%
Equity Ratio	50.54%		50.54%
Return on Equity	14.41%		10.00%

After tax retail storm expenses absorbed to produce 10% retail ROE	(83,443,742)
Before tax retail storm expenses that would produce 10% return on equity	(135,846,548)
Pre-tax system storm expenses that would produce 10% return on equity	(142,695,954)
Storm costs claimed by PEF	311,411,476
Less amount absorbed to produce 10% retail return on equity	(142,695,954)
Storm costs in excess of amount absorbed	168,715,522
Reserve Balance at 12/31/04	46,915,219
Storm Reserve Deficiency	121,800,303

[1] Per Exhibit__(MVW-1), page 4, the Company had expensed $239 million of the storm damage costs for tax purposes. This would have resulted in a deferred income tax of $92,194,250.

Docket No. 041272
Witness: Sheree L. Brown
Exhibit __(SLB-2)

Progress Energy Florida
Recalculation of Interest Provision on Deferred Costs to Recognize Deferred Income Tax

Description	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Total 2005
Beginning Deferred Cost	$ 251,850,486	241,356,716	230,862,946	220,369,176	209,875,406	199,381,636	188,887,866	178,394,096	167,900,326	157,406,556	146,912,786	136,419,016	
Less Amount Recovered in Current Year	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	
Ending Deferred Costs	241,356,716	230,862,946	220,369,176	209,875,406	199,381,636	188,887,866	178,394,096	167,900,326	157,406,556	146,912,786	136,419,016	125,925,246	
Total of Beginning & Ending Deferred Costs	493,207,202	472,219,662	451,232,122	430,244,582	409,257,042	388,269,502	367,281,962	346,294,422	325,306,882	304,319,342	283,331,802	262,344,262	
Average Deferred Costs	246,603,601	236,109,831	225,616,061	215,122,291	204,628,521	194,134,751	183,640,981	173,147,211	162,653,441	152,159,671	141,665,901	131,172,131	
Beginning Deferred Income Tax	97,151,325	93,103,353	89,055,381	85,007,410	80,959,438	76,911,466	72,863,494	68,815,523	64,767,551	60,719,579	56,671,607	52,623,635	
Less Amount Recovered in Current Year	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	
Ending Deferred Income Tax	93,103,353	89,055,381	85,007,410	80,959,438	76,911,466	72,863,494	68,815,523	64,767,551	60,719,579	56,671,607	52,623,635	48,575,664	
Total of Beginning & Ending Deferred Income Tax	190,254,678	182,158,735	174,062,791	165,966,848	157,870,904	149,774,960	141,679,017	133,583,073	125,487,130	117,391,186	109,295,243	101,199,299	
Average Deferred Income Tax	95,127,339	91,079,367	87,031,396	82,983,424	78,935,452	74,887,480	70,839,508	66,791,537	62,743,565	58,695,593	54,647,621	50,599,650	
Average Deferred Costs less Average Deferred Income Tax	151,476,262	145,030,464	138,584,665	132,138,867	125,693,069	119,247,271	112,801,473	106,355,674	99,909,876	93,464,078	87,018,280	80,572,481	
Interest Provision on Net of Tax Deferred Costs at 3.3%	416,560	398,834	381,108	363,382	345,656	327,930	310,204	292,478	274,752	257,026	239,300	221,574	$ 3,626,804

	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Total 2006
Beginning Deferred Cost	125,925,246	115,431,476	104,937,706	94,443,936	83,950,166	73,456,396	62,962,626	52,468,856	41,975,086	31,481,316	20,987,546	10,493,776	
Less Amount Recovered in Current Year	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	10,493,770	
Ending Deferred Costs	115,431,476	104,937,706	94,443,936	83,950,166	73,456,396	62,962,626	52,468,856	41,975,086	31,481,316	20,987,546	10,493,776	6	
Total of Beginning & Ending Deferred Costs	241,356,722	220,369,182	199,381,642	178,394,102	157,406,562	136,419,022	115,431,482	94,443,942	73,456,402	52,468,862	31,481,322	10,493,782	
Average Deferred Costs	120,678,361	110,184,591	99,690,821	89,197,051	78,703,281	68,209,511	57,715,741	47,221,971	36,728,201	26,234,431	15,740,661	5,246,891	
Beginning Deferred Income Tax	48,575,664	44,527,692	40,479,720	36,431,748	32,383,777	28,335,805	24,287,833	20,239,861	16,191,889	12,143,918	8,095,946	4,047,974	
Less Amount Recovered in Current Year	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	4,047,972	
Ending Deferred Income Tax	44,527,692	40,479,720	36,431,748	32,383,777	28,335,805	24,287,833	20,239,861	16,191,889	12,143,918	8,095,946	4,047,974	2	
Total of Beginning & Ending Deferred Income Tax	93,103,356	85,007,412	76,911,468	68,815,525	60,719,581	52,623,638	44,527,694	36,431,751	28,335,807	20,239,864	12,143,920	4,047,976	
Average Deferred Income Tax	46,551,678	42,503,706	38,455,734	34,407,762	30,359,791	26,311,819	22,263,847	18,215,875	14,167,904	10,119,932	6,071,960	2,023,988	
Average Deferred Costs less Average Deferred Income Tax	74,126,683	67,680,885	61,235,087	54,789,289	48,343,490	41,897,692	35,451,894	29,006,096	22,560,297	16,114,499	9,668,701	3,222,903	
Interest Provision on Net of Tax Deferred Costs at 3.3%	203,848	186,122	168,396	150,671	132,945	115,219	97,493	79,767	62,041	44,315	26,589	8,863	$ 1,276,268

Revised Storm Cost Recovery Clause

Function	PEF Storm Damage Claim	2004 Write-Off	Recoverable from Ratepayers	Less Reserve Balance at 12/04	Balance Recoverable from SDRC	Jurisdictional Separation Factor	Retail Recoverable from SDRC
Transmission	$ 47,316,909	$ (21,681,704)	$ 25,635,205	$ (7,269,184)	$ 18,366,021	0.72115	$ 13,244,656
Distribution	$ 258,065,827	$ (118,251,741)	$ 139,814,086	$ (39,646,035)	$ 100,168,050	0.99529	$ 99,696,259
Production Demand-Related Base	$ 400,000	$ (183,289)	$ 216,711		$ 216,711	0.95957	$ 207,949
Production Demand-Related Intermediate	$ -	$ -	$ -		$ -	0.86574	$ -
Production Demand-Related Peaking	$ 833,425	$ (381,895)	$ 451,530		$ 451,530	0.74562	$ 336,670
Production Energy-Related	$ 4,795,315	$ (2,197,324)	$ 2,597,991		$ 2,597,991	0.94775	$ 2,462,246
Total Costs Claimed	$ 311,411,476	(142,695,954)	$ 168,715,522	$ (46,915,219)	$ 121,800,303		$ 115,947,780

Progress Energy Florida
Recalculation of Storm Damage Recovery
Assuming 10% Retail Return on Equity Limitation

Description	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Total 2005
Beginning Deferred Cost	$ 115,947,780	111,116,622	106,285,465	101,454,307	96,623,150	91,791,992	86,960,835	82,129,677	77,298,520	72,467,362	67,636,205	62,805,047	
Less Amount Recovered in Current Year	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	$ 57,973,890
Ending Deferred Costs	111,116,622	106,285,465	101,454.307	96,623,150	91,791,992	86,960,835	82,129,677	77,298,520	72,467,362	67,636,205	62,805,047	57,973,890	
Total of Beginning & Ending Deferred Costs	227,064,402	217,402,087	207,739,772	198,077,457	188,415,142	178,752,827	169,090,512	159,428,197	149,765,882	140,103,567	130,441,252	120,778,937	
Average Deferred Costs	113,532,201	108,701,044	103,869,886	99,038,729	94,207,571	89,376,414	84,545,256	79,714,099	74,882,941	70,051,784	65,220,626	60,389,469	
Beginning Deferred Income Tax	44,726,856	42,863,237	40,999,618	39,135,999	37,272,380	35,408,761	33,545,142	31,681,523	29,817,904	27,954,285	26,090,666	24,227,047	
Less Amount Recovered in Current Year	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	
Ending Deferred Income Tax	42,863,237	40,999,618	39,135,999	37,272,380	35,408,781	33,545,142	31,681,523	29,817,904	27,954,285	26,090,666	24,227,047	22,363,428	
Total of Beginning & Ending Deferred Income Tax	87,590,093	83,862,855	80,135,617	76,408,379	72,681,141	68,953,903	65,226,665	61,499,427	57,772,189	54,044,951	50,317,713	46,590,475	
Average Deferred Income Tax	43,795,047	41,931,428	40,067,809	38,204,190	36,340,571	34,476,952	32,613,333	30,749,714	28,886,095	27,022,476	25,158,857	23,295,238	
Average Deferred Costs less Average Deferred Income Tax	69,737,154	66,769,616	63,802,078	60,834,539	57,867,001	54,899,462	51,931,924	48,964,385	45,996,847	43,029,308	40,061,770	37,094,231	
Interest Provision on Net of Tax Deferred Costs at 3.3%	191,777	183,616	175,456	167,295	159,134	150,974	142,813	134,652	126,491	118,331	110,170	102,009	$ 1,762,718
Ratepayer Payments	5,022,935	5,014,774	5,006,613	4,998,452	4,990,292	4,982,131	4,973,970	4,965,810	4,957,649	4,949,488	4,941,327	4,933,167	$ 59,736,608

	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Total 2006
Beginning Deferred Cost	57,973,890	53,142,732	48,311,575	43,480,417	38,649,260	33,818,102	28,986,945	24,155,787	19,324,630	14,493,472	9,662,315	4,831,157	
Less Amount Recovered in Current Year	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	4,831,157	$ 57,973,890
Ending Deferred Costs	53,142,732	48,311,575	43,480,417	38,649,280	33,818,102	28,986,945	24,155,787	19,324,630	14,493,472	9,662,315	4,831,157	(0)	
Total of Beginning & Ending Deferred Costs	111,116,822	101,454,307	91,791,992	82,129,877	72,467,362	62,805,047	53,142,732	43,480,417	33,818,102	24,155,787	14,493,472	4,831,157	
Average Deferred Costs	55,558,311	50,727,154	45,895,996	41,064,839	36,233,681	31,402,524	26,571,366	21,740,209	16,909,051	12,077,894	7,246,736	2,415,579	
Beginning Deferred Income Tax	22,363,428	20,499,809	18,636,190	16,772,571	14,908,952	13,045,333	11,181,714	9,318,095	7,454,476	5,590,857	3,727,238	1,863,619	
Less Amount Recovered in Current Year	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	1,863,619	
Ending Deferred Income Tax	20,499,809	18,636,190	16,772,571	14,908,952	13,045,333	11,181,714	9,318,095	7,454,476	5,590,857	3,727,238	1,863,619	0	
Total of Beginning & Ending Deferred Income Tax	42,863,237	39,135,999	35,408,761	31,681,523	27,954,285	24,227,047	20,499,809	16,772,571	13,045,333	9,318,095	5,590,857	1,863,619	
Average Deferred Income Tax	21,431,619	19,568,000	17,704,381	15,840,762	13,977,143	12,113,524	10,249,905	8,386,286	6,522,667	4,659,048	2,795,429	931,810	
Average Deferred Costs less Average Deferred Income Tax	34,126,693	31,159,154	28,191,616	25,224,077	22,256,539	19,289,000	16,321,462	13,353,923	10,386,385	7,418,846	4,451,308	1,483,769	
Interest Provision on Net of Tax Deferred Costs at 3.3%	93,848	85,688	77,527	69,366	61,205	53,045	44,884	36,723	28,563	20,402	12,241	4,080	587,573
Ratepayer Payments	4,925,006	4,916,845	4,908,684	4,900,524	4,892,363	4,884,202	4,876,042	4,867,881	4,859,720	4,851,559	4,843,399	4,835,238	$ 58,561,463

Revised Storm Cost Recovery Clause
2005 Rate Design

		MWh Sales at Source Energy Allocator	12 CP Demand Transmission Allocator	12 CP & 1/13 AD Demand Allocator	NCP Distribution Allocator	Energy Related Costs 2.12%	Transmission Demand Costs 11.42%	Distribution Demand Costs 85.98%	Production Demand Costs 0.47%	Total Costs	Sales at meter	Billing Demands
Residential		49.929%	56.915%	56.377%	58.011%	$ 633,380	$ 3,883,679	$ 29,796,724	$ 158,189	$ 34,471,971	20,046,231	
General Service Non-Demand												
GS-1, GST-1												
	Secondary	3.320%	3.406%	3.399%	3.644%	$ 42,120	$ 232,396	$ 1,871,659	$ 9,538	$ 2,155,713	1,333,086	
	Primary	0.022%	0.023%	0.023%	0.024%	$ 285	$ 1,568	$ 12,568	$ 64	$ 14,486	9,158	
	Transmission	0.005%	0.005%	0.005%	0.000%	$ 67	$ 368	$ -	$ 15	$ 450	2,161	
	TOTAL GS											
General Service												
GS-2 (Secondary)		0.212%	0.133%	0.139%	0.101%	$ 2,694	$ 9,052	$ 51,761	$ 389	$ 63,916	85,275	
General Service Demand												
GSD-1	Transmission	0.000%	0.000%	0.000%	0.000%	$ 5	$ 26	$ -	$ 1	$ 32	153	260
SS-1	Primary	0.022%	0.004%	0.005%	0.057%	$ 263	$ 254	$ 29,158	$ 14	$ 29,709	9,082	
	Transmission	0.020%	0.003%	0.005%	0.000%	$ 254	$ 228	$ -	$ 13	$ 495	8,165	
GSD-1	Secondary	32.009%	28.647%	28.905%	27.012%	$ 406,056	$ 1,954,751	$ 13,874,304	$ 81,105	$ 16,316,216	12,851,526	34,270,245
	Primary	6.707%	6.002%	6.057%	5.660%	$ 85,082	$ 409,561	$ 2,907,279	$ 16,994	$ 3,416,936	2,734,452	6,101,495
TOTAL GSD												
Curtailable												
CS-1,CST-1, CS-2, CST-2, SS-3												
	Secondary	0.001%	0.001%	0.001%	0.001%	$ 12	$ 53	$ 503	$ 2	$ 569	375	1,578
	Primary	0.491%	0.394%	0.401%	0.414%	$ 6,230	$ 26,874	$ 212,654	$ 1,126	$ 246,885	200,227	397,422
SS-3	(Primary)	0.010%	0.014%	0.013%	0.203%	$ 133	$ 929	$ 104,065	$ 38	$ 105,164	4,267	
TOTAL CS												
Interruptible												
IS-1, IST-1, IS-2, IST-2												
	Secondary	0.369%	0.245%	0.255%	0.261%	$ 4,676	$ 16,719	$ 134,229	$ 714	$ 156,337	147,996	284,011
	Primary	4.613%	3.066%	3.185%	3.271%	$ 58,523	$ 209,202	$ 1,680,119	$ 8,936	$ 1,956,781	1,880,880	4,330,255
	Transmission	1.084%	0.721%	0.749%	0.000%	$ 13,757	$ 49,175	$ -	$ 2,101	$ 65,032	442,186	1,322,735
SS-2	Primary	0.197%	0.164%	0.167%	0.539%	$ 2,493	$ 11,198	$ 277,003	$ 487	$ 291,162	80,117	
	Transmission	0.180%	0.150%	0.152%	0.000%	$ 2,281	$ 10,243	$ -	$ 428	$ 12,952	73,316	
TOTAL IS												
Lighting												
LS-1 (Secondary)		0.806%	0.108%	0.162%	0.602%	$ 10,225	$ 7,387	$ 411,735	$ 454	$ 429,801	323,633	
		100.00%	100.00%	100.00%	100.00%	$ 1,266,556	$ 6,823,683	$ 51,363,780	$ 280,589	$ 59,736,608	40,232,285	

Revised Storm Cost Recovery Clause
2006 Rate Design

	MWh Sales at Source Energy Allocator	12 CP Demand Transmission Allocator	12 CP & 1/13 AD Demand Allocator	NCP Distribution Allocator	Energy Related Costs 2.12%	Transmission Demand Costs 11.42%	Distribution Demand Costs 85.98%	Production Demand Costs 0.47%	Total Costs	Sales at meter	Billing Demands
Residential	49.750%	56.730%	56.193%	57.832%	$ 618,696	$ 3,794,916	$ 29,120,163	$ 154,570	$ 33,688,345	20,571,963	
General Service Non-Demand											
GS-1, GST-1											
Secondary	3.343%	3.431%	3.424%	3.671%	$ 41,579	$ 229,491	$ 1,848,466	$ 9,418	$ 2,128,954	1,382,517	
Primary	0.023%	0.023%	0.023%	0.025%	$ 281	$ 1,552	$ 12,448	$ 64	$ 14,344	9,497	
Transmission	0.005%	0.005%	0.005%	0.000%	$ 66	$ 367	$ -	$ 15	$ 449	2,241	
TOTAL GS											
General Service											
GS-2 (Secondary)	0.214%	0.134%	0.140%	0.102%	$ 2,661	$ 8,944	$ 51,227	$ 385	$ 63,217	88,489	
General Service Demand											
GSD-1 Transmission	0.000%	0.000%	0.000%	0.000%	$ 5	$ 25	$ -	$ 1	$ 31	159	260
SS-1 Primary	0.022%	0.004%	0.005%	0.057%	$ 275	$ 250	$ 28,725	$ 14	$ 29,265	9,288	
Transmission	0.020%	0.003%	0.005%	0.000%	$ 247	$ 225	$ -	$ 13	$ 485	8,351	
GSD-1 Secondary	32.173%	28.803%	29.062%	27.163%	$ 400,104	$ 1,926,739	$ 13,677,500	$ 79,940	$ 16,084,284	13,303,677	35,479,880
Primary	6.741%	6.035%	6.089%	5.691%	$ 83,835	$ 403,716	$ 2,865,817	$ 16,750	$ 3,370,118	2,830,658	6,316,860
TOTAL GSD											
Curtailable											
CS-1,CST-1, CS-2, CST-2, SS-3											
Secondary	0.001%	0.001%	0.001%	0.001%	$ 11	$ 50	$ 479	$ 2	$ 542	382	1,614
Primary	0.485%	0.389%	0.397%	0.410%	$ 6,036	$ 26,048	$ 206,343	$ 1,091	$ 239,518	203,806	406,386
SS-3 (Primary)	0.010%	0.013%	0.013%	0.200%	$ 126	$ 901	$ 100,538	$ 36	$ 101,604	4,326	
TOTAL CS											
Interruptible											
IS-1, IST-1, IS-2, IST-2											
Secondary	0.367%	0.244%	0.253%	0.280%	$ 4,558	$ 16,303	$ 130,700	$ 696	$ 152,257	151,561	270,257
Primary	4.587%	3.049%	3.168%	3.254%	$ 57,047	$ 203,994	$ 1,638,293	$ 8,714	$ 1,908,049	1,926,193	4,432,711
Transmission	1.078%	0.717%	0.745%	0.000%	$ 13,410	$ 47,949	$ -	$ 2,048	$ 63,407	452,838	1,354,031
SS-2 Primary	0.193%	0.162%	0.164%	0.531%	$ 2,406	$ 10,813	$ 267,623	$ 451	$ 281,293	81,229	
Transmission	0.177%	0.148%	0.150%	0.000%	$ 2,201	$ 9,895	$ -	$ 413	$ 12,509	74,332	
TOTAL IS											
Lighting											
LS-1 (Secondary)	0.808%	0.109%	0.162%	0.804%	$ 10,053	$ 7,267	$ 405,025	$ 447	$ 422,792	334,277	
	100.00%	100.00%	100.00%	100.00%	$ 1,243,600	$ 6,689,446	$ 50,353,346	$ 275,069	$ 58,561,463	41,435,784	

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Confidential Direct Testimony and Exhibits of Sheree L. Brown has been furnished by U.S. Mail this 31st day of January 2005, to the following:

James A. McGee
Progress Energy Florida, Inc.
100 Central Avenue, Suite CX1D
St. Petersburg, Florida 33701

Gary Sasso
John T. Burnett
Carlton Fields
4221 W. Boy Scout Boulevard
Tampa, Florida 33607

Vicki Gordon Kaufman

Vicki Gordon Kaufman