

ORIGINAL

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Sent: Tuesday, March 01, 2005 11:58 AM
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Subject: PEF Storm Recovery-- Docket No. 041272
Attachments: McKinnon Brenda - 03-01-05 - 2H7WSFV.pdf

Attached for filing is PEF's Prehearing Statement for this matter. Thank you.

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ORIGINAL

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

Submitted for Filing:
March 1, 2005

PROGRESS ENERGY FLORIDA, INC.'S PREHEARING STATEMENT

Florida Power Corporation d/b/a Progress Energy Florida, Inc. ("PEF" or the "Company"), pursuant to Order No. PSC-04-1151-PCO-EI, hereby submits its Prehearing Statement in this matter, and states as follows:

A. APPEARANCES

R. Alexander Glenn
James A. McGee
Progress Energy Service Company, LLC
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and

Gary L. Sasso
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B. WITNESSES AND EXHIBITS

PEF reserves the right to call such other witnesses and to use such other exhibits as may be identified in the course of discovery and preparation for the final hearing in this matter.

1. WITNESSES

Direct Testimony.

<u>Witness</u>	<u>Subject Matter</u>
Jeff Lyash	General description of the Company and the Company's performance during the 2004 hurricane season; summary of the impact of the storms on the Company; and the introduction of other witnesses for the Company.
David McDonald	The Company's storm plan for the distribution system; a description of the intensity, path, and destructive impact of each hurricane on PEF's distribution system; the successful execution and implementation of the storm plan for each hurricane to respond to the storms and restore electric service to PEF's customers; and the type of work done during and following the storms to restore power, as well as the work that remains to be done to restore the distribution system to its condition prior to the storms.
Sarah S. Rogers	The Company's storm plan for the transmission system; a description of the intensity, path, and destructive impact of each hurricane on PEF's transmission system; the successful execution and implementation of the storm plan for each hurricane to respond to the storms and restore electric service to PEF's customers; and the type of work done during and following the storms to restore power, as well as the work that remains to be done to restore the transmission system to its condition prior to the storms.
Javier Portuondo	The background of PEF's current Storm Damage Reserve, how the Reserve operates, and the costs properly charged to the Reserve under the self-insurance mechanism as approved by the Commission; the Storm Cost Recovery Clause proposed by the Company and how it will function; the Company's current estimate of storm costs as a result of the 2004 hurricanes; and how recovery of the storm-related costs will affect customer bills.

Mark Wimberly

Description of 2004 hurricane season and its cost impact on PEF; a general description of the storm-related costs; an explanation of how storm-related costs were accounted for before, during, and after the hurricanes; and the process used by the Company to verify that costs assigned to the hurricanes were in fact related to the hurricanes.

Rebuttal Testimony.

Witness

Subject Matter

Javier Portuondo

Rebuttal to testimony by Office of Public Counsel Witnesses James A. Rothschild and Michael J. Majoros, Jr.; rebuttal to testimony of Florida Industrial Power Users Group (“FIPUG”) witness Sheree L. Brown; rebuttal to testimony of Buddy L. Hansen and the Sugarmill Woods Civic Association, Inc. (collectively “Sugarmill Woods”) witness Stephen A. Stewart; and rebuttal to testimony of Staff witness Jocelyn Y. Stephens.

Mark Wimberly

Rebuttal to testimony of OPC witness Michael J. Majoros, Jr.; rebuttal to testimony of FIPUG witness Sheree L. Brown; and rebuttal to testimony of Staff witness Jocelyn Y. Stephens.

2. EXHIBITS

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
JL-1	Jeff Lyash	Map of 2004 Hurricane Tracks.
JL-2	Jeff Lyash	2004 Hurricane Summary Impacts.
DM-1	David McDonald	PEF’s Distribution Storm Plan.
DM-2	David McDonald	Sample ETRs for Hurricane Frances.
DM-3	David McDonald	Example of Daily Goals for Each Hurricane.
DM-4	David McDonald	Wind Field Map of Hurricane Charley’s Impact on PEF’s Service Territory.

DM-5	David McDonald	Wind Field Map of Hurricane Frances' Impact on PEF's Service Territory.
DM-6	David McDonald	Wind Field Map of Hurricane Ivan's Impact on PEF's Service Territory.
DM-7	David McDonald	Wind Field Map of Hurricane Jeanne's Impact on PEF's Service Territory.
DM-8	David McDonald	Composite Exhibit of Pictures of Distribution Storm Damage.
SSR-1	Sarah S. Rogers	Map of the Company's Transmission Areas.
SSR-2	Sarah S. Rogers	Transmission Department Storm Plan.
SSR-3	Sarah S. Rogers	Map of Path of Hurricane Charley over PEF's Transmission System.
SSR-4	Sarah S. Rogers	Map of Path of Hurricane Frances over PEF's Transmission System.
SSR-5	Sarah S. Rogers	Map of Path of Hurricane Jeanne over PEF's Transmission System.
SSR-6	Sarah S. Rogers	Composite Map of Hurricane Paths on PEF's Transmission System.
SSR-7	Sarah S. Rogers	Composite Exhibit of Pictures of Transmission Storm Damage.
JP-1	Javier Portuondo	Summary of Storm Damage Reserve.
JP-2	Javier Portuondo	Storm Cost Recovery Clause Levelized Factors Schedule.
JP-3 (rebuttal)	Javier Portuondo	Florida Power Corporation Evaluation of Currently Approved Storm Damage Accrual filed February 28, 1994 in Docket No. 930867-EI.
JP-4 (rebuttal)	Javier Portuondo	Florida Power & Light Company Transmission and Distribution Insurance Replacement Study dated October 1, 1993 in Docket No. 930405-EI.

JP-5 (rebuttal)	Javier Portuondo	Schedule Showing Timing Difference of Alleged Tax Benefit.
JP-6 (rebuttal)	Javier Portuondo	PEF Response to Staff Audit of Storm Recovery Costs Charged to the Storm Insurance Property Reserve dated February 11, 2005.
JP-7 (rebuttal)	Javier Portuondo	Direct Testimony of Illiana H. Piedra on behalf of Commission Staff in Docket No. 041291-EI and page 18 of Exhibit ___ (IHP-1), the Commission audit report of Florida Power and Light Company's storm cost recovery costs.
MVW-1	Mark Wimberly	Major Storm Cost Estimate Summary.

C. PEF'S STATEMENT OF BASIC POSITION

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 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 estimated \$50 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.

The Storm Cost Recovery Clause should further incorporate the same procedural and substantive mechanisms as other cost recovery clauses implemented by the Commission, including, for example, the true-up of estimates of costs and sales to actual costs and sales, with interest provided for any amounts carried forward that are under or over the actual costs, and the determination that the costs were reasonable and prudently incurred. Storm costs recovered under the clause will be recovered from all retail customers and will be allocated among customers in the various rate classes in the same manner that costs were allocated among the rate classes in the Company's last base rate proceeding. The impact to the average residential customer bill (1,000 KWH per month) is expected to be \$3.81 for 2005 and \$3.59 for 2006. These estimates are based on a start date of January 1, 2005 and would change if that date moved.

A Storm Cost Recovery Clause will serve the public interest. Commercial insurance coverage is no longer available for serious storms, and the annual accruals to the storm reserves established by the Commission were not designed to cover them. All parties benefit from the Storm Cost Recovery Clause. PEF can fulfill its statutory obligation to serve by safely and expeditiously restoring power for its customers with the understanding that PEF will be timely reimbursed, just as PEF was before with replacement cost insurance coverage, for all of its reasonable and prudently incurred direct costs to prepare for, respond to, and recover from catastrophic storms. Customers certainly benefit from the continued assurance that their electric service will promptly and safely be restored following such major storms. The Company and its customers benefit from this reasonable, effective, and lower-cost alternative to more expensive and inadequate third-party insurance.

D. PEF'S STATEMENT OF FACTUAL ISSUES AND POSITIONS

ISSUE 1: Did PEF act reasonably and prudently prior to the storms to minimize storm-related costs? If not, to what extent should the proposed recovery amount be adjusted?

PEF: Yes.

Witnesses: Lyash, McDonald (Distribution), Rogers (Transmission).

ISSUE 2: Has PEF quantified the appropriate amount of non-management employee labor payroll expense that should be charged to the storm reserve? If not, what adjustments should be made?

PEF: Yes, consistent with the Commission-approved self insurance plan, Commission orders and policy, and prior utility practice in accordance with Commission orders and policy, PEF is entitled to recover all of its direct storm-related costs, including Company personnel expenses, incurred to prepare for, respond to, and recover from Hurricanes Charley, Frances, Ivan, and Jeanne.

Witnesses: Portuondo, Wimberly.

ISSUE 3: Has PEF properly treated payroll expense associated with managerial employees when determining the costs that should be charged to the storm reserve? If not, what adjustments should be made?

PEF: Yes, consistent with the Commission-approved self insurance plan, Commission orders and policy, and prior utility practice in accordance with Commission orders and policy, PEF is entitled to recover all of its direct storm-related costs, including Company personnel expenses, incurred to prepare for, respond to, and recover from Hurricanes Charley, Frances, Ivan, and Jeanne.

Witnesses: Portuondo, Wimberly.

ISSUE 4: At what point in time should PEF stop charging costs related to the 2004 storm season to the storm damage reserve?

PEF: PEF should stop charging costs related to the 2004 storm season to the storm damage reserve when PEF has completed all of its storm-related work necessitated by Hurricanes Charley, Frances, Ivan, and Jeanne.

Witnesses: McDonald (Distribution), Rogers (Transmission), Wimberly, Portuondo.

ISSUE 5: Has PEF charged to the storm reserve appropriate amounts relating to employee training for storm restoration work? If not, what adjustments should be made?

PEF: Yes, consistent with the Commission-approved self insurance plan, Commission orders and policy, and prior utility practice in accordance with Commission orders and policy, PEF is entitled to recover all of its direct storm-related costs, including the Company's expenses to train employees for storm restoration work, incurred to prepare for, respond to, and recover from Hurricanes Charley, Frances, Ivan, and Jeanne.

Witnesses: Portuondo, Wimberly.

ISSUE 6: Has PEF properly quantified the costs of tree trimming that should be charged to the storm reserve? If not, what adjustments should be made?

PEF: Yes, consistent with the Commission-approved self insurance plan, Commission orders and policy, and prior utility practice in accordance with Commission orders and policy, PEF is entitled to recover all of its direct storm-related costs, including the costs of tree trimming incurred to respond to and recover from Hurricanes Charley, Frances, Ivan, and Jeanne.

Witnesses: Portuondo, Wimberly.

ISSUE 7: Has PEF properly quantified the costs of company-owned fleet vehicles that should be charged to the storm reserve? If not, what adjustments should be made?

PEF: Yes, consistent with the Commission-approved self insurance plan, Commission orders and policy, and prior utility practice in accordance with Commission orders and policy, PEF is entitled to recover all of its direct storm-related costs, including expenses related to company-owned fleet

vehicles, incurred to prepare for, respond to, and recover from Hurricanes Charley, Frances, Ivan, and Jeanne.

Witnesses: Portuondo, Wimberly.

ISSUE 8: Has PEF properly determined the costs of call center activities that should be charged to the storm damage reserve? If not, what adjustments should be made?

PEF: Yes, consistent with the Commission-approved self insurance plan, Commission orders and policy, and prior utility practice in accordance with Commission orders and policy, PEF is entitled to recover all of its direct storm-related costs, including the costs of call center activities, incurred to prepare for, respond to, and recover from Hurricanes Charley, Frances, Ivan, and Jeanne.

Witnesses: Portuondo, Wimberly.

ISSUE 9: Has PEF appropriately charged to the storm reserve any amounts related to advertising expense or public relations expense for the storms? If not, what adjustments should be made?

PEF: Yes, consistent with the Commission-approved self insurance plan, Commission orders and policy, and prior utility practice in accordance with Commission orders and policy, PEF is entitled to recover all of its direct storm-related costs, including the Company's storm-related advertising and media expenses, incurred to prepare for, respond to, and recover from Hurricanes Charley, Frances, Ivan, and Jeanne.

Witnesses: Portuondo, Wimberly.

ISSUE 10: Has uncollectible expense been appropriately charged to the storm damage reserve? If not, what adjustments should be made?

PEF: Yes, consistent with the Commission-approved self insurance plan, Commission orders and policy, and prior utility practice in accordance with Commission orders and policy, PEF is entitled to recover all of its direct storm-related costs, including uncollectible expenses incurred as a result of Hurricanes Charley, Frances, Ivan, and Jeanne.

Witnesses: Portuondo, Wimberly.

ISSUE 11: Should PEF be required to offset its storm damage recovery claim by revenues it has received from other utilities for providing assistance in their storm restoration activities? If so, what amount should be offset?

PEF: No. Hurricane restoration work for other utilities is no different than hurricane restoration work for the Company; revenues received from other utilities offset the costs of deploying workers to those utilities. When they complete the assignments, they return to their work at PEF at PEF's expense. There are no excess revenues that can be used to offset PEF's unrelated storm damage recovery.

Witnesses: Portuondo, Wimberly, McDonald (Distribution), Rogers (Transmission).

ISSUE 12: Has PEF appropriately removed from the costs it seeks in its petition all costs that should be booked as capital costs associated with its retirement (including cost of removal) and replacement of plant items affected by the 2004 storms? If not, what adjustments should be made?

PEF: Yes. No adjustments should be made.

Witnesses: Portuondo.

ISSUE 13: Has PEF appropriately quantified the costs of materials and supplies used during storm restoration that should be charged to the storm reserve? If not, what adjustments should be made?

PEF: Yes, consistent with the Commission-approved self insurance plan, Commission orders and policy, and prior utility practice in accordance with Commission orders and policy, PEF is entitled to recover all of its direct storm-related costs, including the Company's storm-related materials and supplies, incurred to prepare for, respond to, and recover from Hurricanes Charley, Frances, Ivan, and Jeanne.

Witnesses: Portuondo, Wimberly.

ISSUE 14: Taking into account any adjustments identified in the preceding issues, what is the appropriate amount of storm-related costs to be charged against the storm damage reserve?

PEF: No adjustments are warranted based on the preceding issues, and PEF is entitled to recover all of its storm-related costs that it is seeking in this matter, \$251.9 million, based on its estimates.

Witnesses: Lyash, Portuondo, Wimberly, McDonald (Distribution), Rogers (Transmission).

ISSUE 15: Does the stipulation of the parties that the Commission approved in Order No. PSC-02-0655-AS-EI affect the amount or timing of storm-related costs that PEF can collect from customers? If so, what is the impact? (Legal issue).

PEF: No, the Settlement has no bearing on PEF's Petition under the Commission-approved self-insurance plan, the Commission's orders and policy, and utility practice consistent with the Commission's orders and policy.

Witnesses: Portuondo

ISSUE 16: In the event that the Commission determines the stipulation approved in Order No. PSC-02-0655-AS-EI does not affect the amount of costs that PEF can recover from ratepayers, should the responsibility for those costs be apportioned between PEF and retail ratepayers? If so, how should the costs be apportioned? (Contingent issue).

PEF: No, the Company is entitled to recover all reasonable and prudently incurred storm costs, in accordance with Commission-approved procedures for accounting for these costs.

Witnesses: Portuondo.

ISSUE 17: What is the appropriate amount of storm-related costs to be recovered from the customers? (Fallout issue).

PEF: The appropriate amount is all direct storm-related costs incurred by the Company to prepare for, respond to, and recover from Hurricanes Charley, Frances, Ivan, and Jeanne, consistent with the Commission-approved self insurance plan, Commission orders and policy, and prior utility practice in accordance with Commission orders and policy. The Company's direct storm-related 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, is, based on its estimates, \$251.9 million.

Witnesses: Lyash, McDonald (Distribution), Rogers (Transmission), Portuondo, Wimberly.

ISSUE 18: If recovery is allowed, what is the appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery?

PEF: The appropriate accounting treatment would be treatment that is consistent with that provided for in any other cost recovery mechanisms approved by the Commission.

Witnesses: Portuondo.

ISSUE 19: Should PEF be authorized to accrue and collect interest on the amount of storm-related costs permitted to be recovered from customers? If so, how should it be calculated?

PEF: Yes, allowing the accrual and collection of interest on the amount of storm-related costs in excess of the storm damage reserve is consistent with practice under other cost recovery clauses and reimburses PEF for its carrying costs on those amounts. Interest should be calculated at the current commercial paper rate.

Witnesses: Portuondo

ISSUE 20: What mechanism should be used to collect the amount of the storm-related costs authorized for recovery?

PEF: The proper mechanism for the recovery of all of PEF's direct storm-related costs arising from Hurricanes Charley, Frances, Ivan, and Jeanne is a Storm Cost Recovery Clause.

Witnesses: Portuondo.

ISSUE 21: If the Commission approves recovery of any storm-related costs, how should they be allocated to the rate classes?

PEF: All storm-related costs above the storm damage reserve should be recovered from all retail customers and allocated among customers in the various rate classes in the same manner that costs were allocated among the rate classes in the Company's last base rate proceeding.

Witnesses: Portuondo

ISSUE 22: What is the proper rate design to be used for PEF to recovery storm-related costs?

PEF: Under the proposed Storm Cost Recovery Clause, the Company proposes that these costs be allocated among the various rate classes in the same manner as the Company's last approved cost of service study, i.e., production demand-related costs would be allocated using the 12 Coincident Peak ("CP") and 1/13th Average Demand ("AD") method, production energy-related costs would be allocated based on energy usage, transmission costs would be allocated using the 12 CP method, and distribution costs would be allocated using the Non-Coincident Peak method. In this manner, the allocation and calculation of the

charges to customers under the Storm Cost Recovery Clause would mirror the allocation and calculation of costs under PEF's Commission-approved cost of service study and other cost recovery clauses established by the Commission. The billing factors for each customer class based on the costs and allocation factors discussed above are shown in Exhibit (JP-2).

Witnesses: Portuondo

ISSUE 23: What is the appropriate recovery period?

PEF: Two years is a reasonable recovery period that allows PEF to recover its direct storm-related costs in a reasonable amount of time after they were incurred thereby reducing the financial impact on customers from additional financing costs and the return on working capital and further reducing the potential for the additional financial impact on customers from other severe storms if the period of recovery is extended. The requested Storm Cost Recovery Clause also more closely matches the recovery of the costs to the time they were incurred so that it is more likely that the ratepayers paying such costs are the same ones who benefited from the hurricane restoration process.

Witnesses: Portuondo.

ISSUE 24: If the Commission approves a mechanism for the recovery of storm-related costs from the ratepayers, on what date should it become effective?

PEF: Thirty days following the Commission's approval of the Company's Petition, with recovery beginning on the first billing cycle of the next month.

Witnesses: Portuondo

ISSUE 25: Should PEF be required to file tariffs reflecting the establishment of any Commission-approved mechanism for the recovery of storm-related costs from the ratepayers?

PEF: Yes

Witnesses: Portuondo

ISSUE 26: Should the docket be closed?

PEF: Yes.

Witnesses: Lyash, McDonald (Distribution), Rogers (Transmission), Portuondo, Wimberly.

E. PEF'S STATEMENT OF LEGAL ISSUES AND POSITIONS

See Issues 15 through 17 above, which are mixed issues of law and fact, and PEF's Statement of Position on Issues 15 through 17.

F. PEF'S STATEMENT OF POLICY ISSUES AND POSITIONS

See Issues 2 through 11, 13, 14, 20, 21, and 23 above, which are mixed issues of policy and fact and PEF's Statement of Position on Issues 2 through 11, 13, 14, 20, 21, and 23.

G. STIPULATED ISSUES

There are no stipulated issues at this time.

H. PENDING MATTERS

<u>Motion</u>	<u>Filing Date</u>
PEF's Second Motion for Temporary Protective Order	01/11/2005
PEF's Amended Second Motion for Temporary Protective Order	01/11/2005
PEF's Third Motion for Temporary Protective Order	01/11/2005
PEF's Fourth Motion for Temporary Protective Order	01/19/2005

I. PENDING REQUESTS FOR CONFIDENTIAL TREATMENT

<u>Request or Notice of Intent to Seek Confidential Classification</u>	<u>Filing Date</u>
PEF's Second Request for Confidential Classification	12/29/2004
PEF's Third Request Confidential Classification	02/21/2005
PEF's Fourth Request Confidential Classification	02/21/2005
PEF's Fifth Request Confidential Classification	02/21/2005

In addition, pursuant to the Order Establishing Procedure, Order No. PSC-04-1151-PCO-EI, any party intending to use confidential information obtained from PEF during the course of discovery in the proceeding must notify PEF of its intention no later than seven (7) days prior to the beginning of the hearing. If such designations are made by any party to this proceeding, PEF will be requesting confidential treatment of such materials.

J. REQUIREMENTS OF THE PREHEARING ORDER THAT CANNOT BE MET

Because discovery is continuing in this matter, PEF must reserve the right to use witnesses and exhibits other than or different from those identified hereinabove, in order to respond to ongoing developments in the case.

K. OBJECTIONS TO WITNESSES' QUALIFICATIONS

PEF may object to the qualifications of the following witnesses to offer the testimony in whole or in part that they have presently filed:

1. Sugarmill Woods witness Stephen Stewart.

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Respectfully submitted,



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished to the following individuals as indicated in the service list on this / / day of March, 2005.

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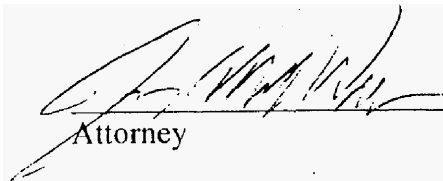
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