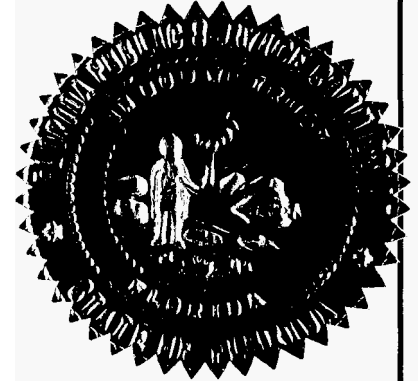


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 041272-EI

In the Matter of:

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.



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THE PDF VERSION INCLUDES PREFILED TESTIMONY.

VOLUME 2

Pages 40 through 199

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN BRAULIO L. BAEZ
COMMISSIONER J. TERRY DEASON
COMMISSIONER RUDOLPH "RUDY" BRADLEY
COMMISSIONER CHARLES M. DAVIDSON
COMMISSIONER LISA POLAK EDGAR

DATE: Wednesday, March 30, 2005

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Chief, Office of Hearing Reporter Services
FPSC Division of Commission Clerk and
Administrative Services
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APPEARANCES: (As heretofore noted.)

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P R O C E E D I N G S

(Transcript follows in sequence from Volume 1.)

CHAIRMAN BAEZ: Mr. McWhirter.

MR. McWHIRTER: May it please the Commission. My name is John McWhirter and I'm here representing an industrial and large commercial consumer group. There was a Harvard professor, sort of a philosopher by the name of John Dos Passos, and he opined one time that you cannot -- if you ignore history, you are doomed to repeat it. And I think in this case it is important to put the case into perspective to look at three moments in the history of the electric utility industry.

The first moment is the time period a little more than 100 years ago, and a young man came to the United States as a clerk for Thomas Edison. His name was Samuel Insull. Samuel Insull grew to be the father of the modern utility industry, and he came up with ideas that are still with us today. He came as Edison's clerk, and he watched how Edison did business. And while he was with Edison he learned three things. The first thing he learned was the importance of government protection for a utility. **And government protection** as it came into play then with the first electric utility in America was in New York City. It served Wall Street. And the municipal authorities of New York City took out the gas company and allowed electric lighting to take its place.

1 The second thing he learned under government
2 protection was that you can establish a monopoly with
3 government protection. He was the one that coined the phrase
4 "natural monopoly," and since then around the country electric
5 utilities have gotten franchises.

6 The third thing he learned was the power of high
7 finance. When J.P. Morgan and the Wall Street financier forced
8 Edison out of the business and they took over all the electric
9 industry on the east coast of the United States, Samuel Insull,
10 who had ground to be the president of Edison General Electric,
11 was fired. Edison General Electric manufactured electrical
12 parts. And so he left with the knowledge that he had in his
13 mind and he went to Chicago. And he took the money that he had
14 earned under Edison and bought a small utility known as
15 Commonwealth Edison. And under that he nurtured government
16 private utility partnerships and got a franchise in Chicago,
17 and then he developed a program of public relations, and he got
18 all the utilities to spend a lot of time explaining to the
19 public the value of the public utilities industry and what it
20 can do for people. And he was able to lure investors into his
21 utility company through this advertising that he used and got
22 all the other utilities together and they formed a national
23 electric association, which today is called the Edison Electric
24 Institute, and they promote electric companies. They would go
25 around to schools in the 20's when Insull was in power and had

1 songs that they had the children sing, and they sent the
2 electric company representatives out to these schools. And
3 public relations was the second big thing.

4 But the most important thing he established in his
5 leadership of the electric industry was the public utility
6 holding company. And ironically he came up controlling about
7 15 percent of the entire electric industry in the United
8 States. He owned over 100 utilities. And ironically he owned
9 a North Carolina utility which in turn owned the predecessor of
10 Progress Energy, Florida Power Corporation. And all was going
11 well.

12 Samuel Insull was a lord of the manor. He was one of
13 the most respected people in the United States. He founded the
14 Chicago Opera. But then something went wrong, and the economy
15 went bad, and Insull's company went bankrupt. And when
16 Insull's company went bankrupt, he, as a debtor, and knowing
17 the business was appointed as one of the trustees in
18 bankruptcy. His co-trustee was an accountant in Chicago named
19 Arthur Anderson, who learned from Samuel Insull. The other
20 trustee was a judge's son-in-law. The bankruptcy court and the
21 federal government investigated the Insull holding company
22 enterprises and they found that was all was not right. And it
23 wound up that Insull was charged with mail fraud, in that he
24 had encouraged investors to come to his company and bondholders
25 to lend money to his company through alleged mail fraud. He

1 was charged with embezzlement as a result of the transactions
2 with the affiliates of those companies. He was charged with
3 violating the Bankruptcy Act. And one of Insull's protegee's
4 who had been formerly an Illinois Public Service Commissioner,
5 and had been elected to the United States Senate, was so
6 embarrassed by his relationships with Insull that he was thrown
7 out of the United States. Insull left the country and was
8 brought back in chains.

9 And the question arises was he a pariah or was he a
10 great American hero. I am not going to answer that question
11 for you, but I will tell you what happened as a result of the
12 failure of the Insull enterprise. It effects us today. The
13 Federal Power Commission was created to take care of interstate
14 utilities. The Securities and Exchange Act was passed in 1932
15 to protect investors in utilities and other companies. The
16 public utility holding company was passed in order to break up
17 interstate holding companies, or to require them to be
18 registered with the Securities Commission.

19 The president of Florida Power at that time said that
20 was the greatest thing that had ever happened to his utility.
21 And most remarkably interesting for today's operation is the
22 uniform system of accounts was established because they found
23 the Insull accounting system, which ignored depreciation and
24 had other strange quirks in it really didn't work, and as a
25 result of it we come now today with generally accepted

1 accounting practices and the Financial Accounting Standards
2 Board.

3 Now, that happened in the early '30s. I want you now
4 to fast forward 50 years to the early '90s, and what is going
5 on in Florida at that time. In Florida at that time the public
6 utility holding company was reestablished. We now have public
7 utility holding companies in Florida with many affiliates. A
8 little bit later a North Carolina utility once again merged
9 with Florida Progress, a Florida utility. Public utilities in
10 Florida now have over 100 lobbyists in the legislature. And
11 accounting, even with the Financial Accounting Standards Board,
12 has risen to a fine art.

13 The next thing that has happened was the utilities
14 had a great windfall in 1993, and that great windfall was
15 Hurricane Andrew of all things. Now, most of the damage to
16 utilities was covered by insurance, so there was no immediate
17 impact on customers or on the utilities themselves. But the
18 next time that utilities went out for insurance, they found
19 that the insurance rates had gone up about 900 percent in some
20 instances, and the deductibles had gone up 1,500 percent, and
21 so there was concern about that.

22 Now, to understand the insurance industry, what
23 happens with insurance is you reduce cost to people by
24 spreading the risk, and you spread the risk over the entire
25 United States in most cases. And since a casualty is only

1 going to happen in one place, small premiums collected from a
2 lot of places will cover that casualty without hurting anybody
3 too much.

4 The insurance companies turned Hurricane Andrew, like
5 they do many other things, from lemons to lemonade. And they
6 came to this Commission at that time -- and at that time with
7 their public utility holding companies and so forth, all of
8 them had earnings that were bumping into or exceeding the top
9 of the authorized rates of return. What they did was they said
10 we can't get reasonably priced insurance anymore. We would
11 like you to approve us self-insuring because insurance is so
12 costly. And the Commission said, well, we would like -- that
13 makes some sense under the circumstances. We would like you to
14 conduct some studies and come back to us and tell us what you
15 want to do about it, and what should be done, and the main
16 thing we want you to tell us is what should we be prepared for
17 in storm damage.

18 Now, this was a real boon to the utilities because
19 now they have used a misnomer. Self-insurance is not
20 self-insurance, it is customer insurance. So the customers of
21 each of the utilities is now the insurance company or the
22 customers en masse. We don't have the diversity of the whole
23 United States customers paying part of the premium of the
24 insurance, you have only the customers in one service area.
25 But that is still fairly diverse. But the cost, of course, is

1 going to be substantially higher.

2 The beauty for the utilities in 1993 through 1995
3 under the Hurricane Andrew windfall was instead of paying the
4 insurance premium that was already in their base rates to an
5 insurance company, they could keep the money. Instead of
6 suffering deductibles, they could come up with a structure that
7 without deductibles the customers would pay the entire cost.

8 And then in the studies if you look at them, they did
9 another thing that was absolutely fascinating. They said we
10 can get double recovery because our entire storm costs are
11 going to be recovered and in addition to this, we can keep the
12 money that was normally budgeted for operating costs and it
13 will cause our earnings to go up. And as an added icing on the
14 cake, since we are presently suffering earnings bumping at the
15 top of the authorized return, what we can do is create this
16 storm reserve which will create a liability and it will look
17 like our earnings and we can take revenue we are receiving from
18 the customers and we can offset that with a liability and our
19 earnings will go down.

20 And these companies came in with the studies which
21 are being relied on in this case. We now fast forward to the
22 year 2004. If they can get the studies in place with
23 accounting systems developed that allow them to recover 100
24 percent of their cost plus a windfall profit in the year of the
25 storm, the greatest thing that can happen is a big storm.

1 Well, in 2004 we had the big storm. And what has happened in
2 this situation, the way the utilities have done their
3 accounting, in 2004 they are getting windfall profits on their
4 earnings that it is too late to do anything about. In addition
5 to that, if they get the relief they seek in this case, they
6 will recover 100 percent of their storm damage.

7 We have a three-pronged attack. This is only one
8 small part of the overall attack by Florida utilities, and this
9 first one to be heard and consequently it is the most important
10 case, but there is a bill in the legislature to have a
11 legislative imposed increase to have the customers pick up
12 storm damages. But there isn't any definition in that bill
13 about -- they have defined storm damage the way they did it in
14 their studies, so they preempt the Commission from doing
15 anything special about it in my opinion.

16 The second thing they don't deal with is the fact
17 that there is going to be incomes tax on the money that is
18 collected under the securitization bill, and they haven't told
19 us how that is going to be handled. But that is another case.
20 The other approach they are taking, both Florida Progress and
21 Florida Power and Light have come in with base rate cases so
22 they can recover the storm damage either through their
23 securitization bill, they can recover the storm damage in this
24 case, or they can recover the storm damage in the base rate
25 cases. So all three of these things are going on

1 simultaneously.

2 One problem that Florida Progress had in 2004 was
3 that they were frustrated by an agreement they had earned into.
4 It said that your base rates must fall to 10 percent rather
5 than rising to an exponential amount when this big storm comes
6 along. So they were frustrated by this agreement, but that
7 agreement related to base rates. So wa-la, what we do then is
8 create a new cost-recovery mechanism and say that the
9 stipulation doesn't apply to cost-recovery mechanisms designed
10 to cover unusual operating and extraordinary operating costs,
11 and so we don't have been to abide by what we agreed to abide
12 by.

13 I will bring this to a short conclusion. Now that
14 you know the history 100 years ago, how Samuel Insull developed
15 the modern utility industry, what happened in '93, how
16 Hurricane Andrew set us up for the big windfall later, and 2004
17 when the big windfall occurred, I would like you to think of
18 the intervenor people at this end of the table as insurance
19 claims agents and we are here as representatives of the
20 insurers, who are your consumers of Florida Progress. And we
21 want you to do right by those consumers, if you will. And what
22 we want you to do is where the utility is asking you to recover
23 their entire storm costs, however they identify it, plus let
24 them keep their ordinary and maintenance expenses that were
25 used to collect to do storm work by employees that were doing

1 storm work, if I were an insurance claims agent, I would say
2 wait a minute, that is double recovery. You are already
3 recovering the salaries of these people through base rates and
4 now you are seeking to recover those salaries again through the
5 storm damage. That is insurance fraud. So we are going to ask
6 you to look to see if what Florida Progress is asking is not
7 really tantamount to insurance fraud on the customer insurers.

8 Secondly, insurance companies, as my predecessors
9 have talked about, have a deductible portion. They say in
10 order to prevent insureds from doing wrong, we want you to
11 share in the cost. And, of course, that has presented a real
12 problem for Florida consumers because insurance companies have
13 applied these deductibles and when there are four storms they
14 applied them four times. **And customers are already hurting**
15 from the storm damage if they were in that area. All customers
16 s in Florida are going to hurt a lot from increased insurance
17 premiums. **No customer, no customer in Florida that was hurt by**
18 insurance is going to get all of his money back. FEMA, the
19 municipal utilities say the customers are going to get 90 to 95
20 percent of their storm damage recovered through FEMA, but
21 Florida Progress wants you to give them 100 percent of their
22 earnings plus allow their return on equity in 2004 because they
23 are eliminating some major ordinary and necessary operating
24 expenses and reclassifying that as insurance. **They want you to**
25 ignore the fact that their earnings will now soar to over 14

1 percent on equity. And when the equity component in your
2 company is substantially more than half, that is a big number.

3 The third thing we want you to do as your insurance
4 agents, we would like -- as your insurance claim agent, we
5 would like you to look at the insurance policy, and in this
6 instance we have an agreement that you look at. And Mr.
7 McGlothlin has told you about that agreement, and I won't go
8 into it in any more detail than that, but we think Florida
9 Progress is bound by it.

10 And, finally, we want to tell you that we are proud
11 of the way that Florida Progress handled the storm damage, the
12 way they worked with citizens. It helped their public
13 relations. They showed the kind of attitude we would expect on
14 the part of our utility, and you should be proud of them, and I
15 don't want to do anything here today to cast aspersions upon
16 that prompt and good reaction. All we ask you to do, all we
17 ask you to do is fairly share the cost between the utility and
18 its customer insurers. And because, as Mr. Sasso told you,
19 defining the incremental cost is difficult, and it is going to
20 require a lot of problems, we give you some alternatives and we
21 give you a simplified method for doing it. And we hope that
22 you will recognize the importance of having the utility share a
23 little bit in the hurricane cost with its customers who are
24 caught by the burden of their own hurricane losses and by the
25 burden of their increased insurance premiums already, and now

1 let them get some relief at least from their insurance company
2 return than paying the insurance company a windfall profit.

3 Thank you for your time.

4 CHAIRMAN BAEZ: Thank you, Mr. McWhirter.

5 Mr. Wright.

6 MR. WRIGHT: Thank you, Mr. Chairman. Like you and
7 Mr. Sasso, I too am working a cold. And the good news is my
8 opening statement will be the briefest yet.

9 This is about costs, proper costs and proper risk
10 sharing, and the Commission's decisions in that regard. We
11 agree with Mr. McLean's earlier comment that any proprietor,
12 the owners of any company or firm in Florida would and should
13 share in the risks and costs associated with natural events
14 such as hurricanes. Here, in the regulatory context, the
15 Commission has in our view of the world an overarching,
16 overriding statutory mandate to ensure that the totality of
17 utilities rates, Progress' this week, Power and Light's in
18 three weeks from now, that the totality of utilities rates are
19 fair, just, and reasonable. We fully support this principle
20 and we fully support that outcome.

21 However, approving Progress' request would result in
22 total rates that are too high. That are so high as to be
23 unfair, unjust, and unreasonable. The surcharges would, as
24 others have observed, enable Progress to insulate excessive
25 profits via the use of the proposed surcharges. They would, as

1 Mr. McGlothlin and Mr. McWhirter have said, and with which we
2 agree impose all risks upon their customers. As Mr. McWhirter
3 pointed out, they would make -- Progress would make us their
4 insurers. Accordingly, the Commission should limit the
5 surcharges that it approves, if any, to the amount necessary to
6 provide Progress Energy with the opportunity to earn a fair,
7 just, and reasonable rate of return on equity, 10 percent,
8 which they agreed to in the 2002 stipulation for 2004 and 2005.
9 We agree with the comments of Mr. McGlothlin and Mr. McWhirter,
10 and thank you.

11 CHAIRMAN BAEZ: Mr. Twomey.

12 MR. TWOMEY: Yes, sir, Mr. Chairman. Thank you,
13 Commissioners. Mike Twomey.

14 First, I want to say, Commissioners, that I would
15 encourage you to listen to the positions given to you on the
16 issues by the consumer representatives before you today.
17 Public Counsel by law represents all of the utilities customers
18 in these cases. FIPUG represents industrial and other large
19 users. The Florida Retail Federation represents or has over
20 10,000 members, businesses reportedly. I am representing Bud
21 Hanson, who many of you know, Sugarmill Woods, who has several
22 thousand community members, and the AARP, a goodly number of
23 its 2.7 million members in Florida which are served by
24 Progress.

25 Each of us here speaking to you today has urged that,

1 one, you should either give no surcharge, or if you do, that
2 the surcharge should reflect a sharing of the cost of recovery
3 with the company and not the cost to be borne completely 100
4 percent by the utility's customers.

5 I say that because it is in contrast to some of the
6 testimony you heard in your multi-city customer service
7 hearings where you had customers tell you that they wanted to
8 have their rates increased and they wanted to bear 100 percent
9 of the cost of the recovery of this utility's systems. I want
10 to urge to you and suggest to you that that testimony in the
11 face of what you are hearing from the representatives of
12 consumers here today is simply not credible. No customers can
13 credibly want to pay all of these costs 100 percent, and you
14 shouldn't find that they should have to.

15 Now, Mr. Sasso talked as if -- or seemed to talk as
16 if there was in reality a storm cost-recovery clause. Now, of
17 course, there is no such thing. There is no such animal. And
18 without a clause, a recovery clause like your fuel charge
19 clause, and environmental and so forth, there is no history in
20 this Commission that I am aware of in my 25 years of practice
21 that the Commission has set rates in order to go back and
22 capture for a utility past expenditures. That is in this case
23 monies they spent for the recovery of their hurricane costs in
24 2004 to set prospective rates to go back and get past
25 expenditures. I am not aware of an instance where that has

1 been done outside of a clause that in advance has foreseen such
2 a recovery clause. I'm going back.

3 You all know that ratemaking is prospective, that is
4 you set rates that are designed in the future to recover costs
5 that are estimated, projected, or known. So, in the orders
6 that the Commission has rendered since 1993, the orders that I
7 am aware of on storm cost recovery are consistent with that
8 view. That is there is not a 100 percent indemnification
9 described in any of those orders as I read them. In fact, I
10 don't recall in those orders that the Commission gave any rate
11 increases at all. Typically what has happened, and by reading
12 those orders you will see that the Commission has considered
13 allowing a utility to increase its accrual if its earnings
14 allowed it, but didn't give surcharges to immediately bring the
15 fund back into a positive balance. In the case of Gulf Power,
16 the fund was allowed, the storm fund was allowed to go negative
17 for awhile. So you have not -- in the past, your precedence is
18 not to go back and give a surcharge as is being requested by
19 this company now.

20 Consequently, you should in our opinion not grant a
21 surcharge and allow this utility to amortize its cost over five
22 years. In addition to that, you could consider increasing the
23 accrual in the company's base rate case which is yet to be
24 filed, that will be filed soon presumably, and which will be
25 decided before the year is out. Increase the accrual if the

1 projections show that it is necessary on a going-forward basis.

2 If you do decide to grant a surcharge, you should do
3 two things. First, as pointed out by the previous speakers,
4 you need to eliminate the double counting or double-dipping.
5 The company has overreached extensively especially in terms of
6 its personnel costs trying to charge the regular eight-hour day
7 of a worker and not just the overtime. That is egregious in my
8 view. It is overreaching. The burden of proof for any expense
9 in any case is on the utility. You all should hold them to
10 task and you should eliminate each and every dollar which has
11 been alleged and shown that they have overreached by trying to
12 have a double recovery by designating what would otherwise be
13 an annual expense, a normal O&M expense as storm recovery so
14 they get a double recovery there.

15 Secondly, and more importantly as pointed out by Mr.
16 McGlothlin, you need to embrace the sharing concept. If you
17 are going to make the customers pay for any of these costs at
18 all through a surcharge, you need to make the company pay its
19 share, as well. And I will use one utility's name to emphasize
20 this fact. I would encourage you to remember because you just
21 recently approved it, Gulf Power. Gulf Power's workers, I
22 assume, worked just as valiantly as Progress Energy's did in
23 extreme weather and at their peril to fix their system for the
24 betterment of their customers. And it is not just for the
25 betterment of the customers, of course. Mr. Sasso would have

1 you believe, apparently, that the only people that benefitted
2 by the repair of Progress Energy's system were the system's
3 customers.

4 Now, for example, supermarkets are in the business of
5 selling food. Those people that suffered storm damages got out
6 and fixed their stores so they could start selling groceries
7 again. Progress Energy, like the other utilities in this
8 state, are in the business -- is in the business of selling
9 electricity. It had to fix its own system in order to get back
10 in business. Progress should be required to share on about the
11 same order through your vote as Gulf Power did through its
12 stipulation with the office of Public Counsel and with FIPUG,
13 which stipulation you approved which had them share roughly on
14 the order of about 50 percent of the costs. In the end you
15 should find about the same thing.

16 To suggest that this utility, Progress Energy, which
17 reported earnings to the SEC and its shareholders last year of
18 something in excess of 13.5 percent on equity as I recall, to
19 require its customers to pay 100 percent of these costs and let
20 the shareholders get a free ride is in my view unconscionable.
21 You should not do it, Commissioners.

22 Shareholders purchase stock in this company. They
23 know that it has assets in the state of Florida, they have to
24 know given our history that the state gets hit with some
25 frequency with hurricanes. As you were told earlier, as you

1 know from your cost of capital testimony, there is a business
2 risk associated with this, and the utilities are paid for it in
3 the equity award that you approve.

4 Requiring the utility to go down to 10 percent, we
5 are not talking about 2 percent, we are not talking about 3
6 percent, we are not looking at businesses that were wiped out,
7 or people that lost everything, or major investments through
8 deductibles and so forth. Ten percent is still a very decent
9 return in today's market. You should require them to share
10 down to 10 percent. It is the floor they agreed upon, you
11 should hold them to it.

12 Lastly, I would encourage you to examine essentially
13 in every account nook and cranny to see if there are other ways
14 that you can reduce wherever possible any surcharges you impose
15 upon this utility's customers. And what I have in mind is
16 something that has happened very recently. Yesterday, I am
17 aware Public Counsel filed a motion asking you to consolidate
18 Florida Power and Light Company's storm recovery case with its
19 base rates case and with a depreciation case the company just
20 filed. And as I understand they did so on the basis that in
21 the depreciation study Florida Power and Light reports that it
22 had something on the order of 1.2 billion, billion with a B,
23 dollars of excess depreciation monies. Those monies -- if that
24 is true, those monies, of course, are essentially customer
25 supplied money held in trust, if you will, by the utility that

1 if it is excessive as described by Public Counsel, is no longer
2 needed for purpose for which it was collected.

3 Now, if that is true, there is a possibility one
4 would hope from the customer's perspective that that excess
5 money for depreciation could be used to settle up on storm
6 damages, recharge the reserve without any surcharges and so
7 forth. I mention that because the Commission and the staff and
8 the parties to the extent they can ought to try and examine
9 what the situation is with depreciation with this utility. If
10 Florida Power and Light had excessive depreciation dollars that
11 might be used to reduce storm damages, perhaps Progress does.

12 I appreciate your time. Thank you.

13 CHAIRMAN BAEZ: Thank you, Mr. Twomey.

14 Commissioners, I had mentioned to you, and I guess I
15 will mention to everyone else, we are done with the opening
16 statements and we are ready to move on to the witnesses. And
17 as the hour is around 12:30 now by my watch, I have planned on
18 breaking at 1:30 unless you would rather use the -- you tell
19 your pleasure -- unless you would rather use this natural
20 breaking point before we start taking witnesses. 1:30 is fine?
21 Are you all okay with it? All right. We will go to 1:30 and
22 just try and get as many witnesses.

23 Are all the witnesses in the room? How would
24 somebody that wasn't in the room know, right? This is without
25 medication, people, I want you to know. All right. Well,

1 those witnesses that are in the room, please stand up. Let's
2 swear everyone in and we will be taking testimony.

3 (Witnesses sworn.)

4 Thank you. Sit down.

5 Mr. Sasso, we are ready for your first witness.

6 MR. WALLS: Mr. Jeff Lyash. And at this time we will
7 pass out his direct testimony, unless the Commissioners already
8 have it.

9 CHAIRMAN BAEZ: No, I think we have got his prefiled.

10 **JEFF LYASH**

11 was called as a witness on behalf of Progress Energy Florida,
12 and having been duly sworn, testified as follows:

13 **DIRECT EXAMINATION**

14 BY MR. WALLS:

15 Q Mr. Lyash, will you please introduce yourself to the
16 Commission and provide your address?

17 A My name is Jeff Lyash. I live at 10215 Golden Eagle
18 Drive in Seminole, Florida, and I am the Senior Vice-President
19 of Energy Delivery for Progress Energy Florida.

20 Q And, Mr. Lyash, have you filed prefiled direct
21 testimony and exhibits in this proceeding?

22 A Yes, I have.

23 Q And do you have that in front of you?

24 A Yes, I do.

25 Q Do you have any changes to make to your prefiled

1 testimony or exhibits at this time?

2 A No, I do not.

3 Q And if I asked you the same questions in your
4 prefiled testimony today, would you give the same answers that
5 are indicated in your prefiled testimony?

6 A Yes, I would.

7 MR. WALLS: We request at this time that the prefiled
8 testimony be moved into evidence as if it were read in the
9 record.

10 CHAIRMAN BAEZ: I think Mr. Lyash's testimony has
11 already been moved into the record, and also let the record
12 reflect that the two exhibits attached to his prefiled direct
13 testimony, JL-1 and JL-2, have been previously marked as
14 Exhibits 7 and 8.

15 MS. BRUBAKER: Actually, Chairman, since there were
16 some objections to the testimony, the testimony has not been
17 entered into the record.

18 CHAIRMAN BAEZ: You know, I knew I was going to slip
19 up somewhere. If there is no objection we will move Mr.
20 Lyash's direct testimony into the record as though read. And
21 as I had stated earlier, JL-1 and JL-2 have been previously
22 marked as 7 and 8. Go ahead, Mr. Walls.

23

24

25

FPSC DOCKET NO. 041272-EI

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

DIRECT TESTIMONY OF JEFF LYASH

I. INTRODUCTION AND QUALIFICATIONS

1
2 **Q. Please state your name, employer, and business address.**

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

5
6 **Q. Please tell us your position with Progress Energy, and describe your duties and
7 responsibilities in that position.**

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

10
11 **Q. Please summarize your educational background and employment experience.**

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

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

3
4 **II. PURPOSE OF TESTIMONY**

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

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

16
17 **Q. Do you have any exhibits to your testimony?**

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

19 **JL-1 Map of 2004 Hurricane Tracks.**

20 **JL-2 2004 Hurricane Summary Impacts.**

21 These exhibits were prepared under my direction, and each is true and accurate.
22
23

III. INTRODUCTION OF THE COMPANY'S PROPOSAL.

1

2 **Q. Please generally describe the Company.**

3 A. PEF is an investor-owned electric utility company that serves approximately 1.5
4 million retail customers in our service area in Florida. Our service area comprises
5 approximately 20,000 square miles in 35 of the state's 67 counties, encompassing the
6 cities of St. Petersburg and Clearwater and densely populated areas surrounding
7 Orlando, Ocala, and Tallahassee. PEF supplies electricity at retail to approximately
8 350 communities and at wholesale to about 21 Florida municipalities, utilities, and
9 power agencies in the State of Florida.

10

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

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

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

21 Hurricane Frances struck next on September 4th, again with widespread
22 impacts on our service territory. At the peak, 832,898 customers lost power, which is
23 54.4% of our total number of customers. All customers capable of receiving power

1 were restored within six days. We estimate the total costs for Hurricane Frances to be
2 \$128.6 million.

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

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

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

14
15 **Q. How did the Company respond to the hurricanes?**

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

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

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

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

7
8 **Q. Please describe your storm plan.**

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

15 • Generation and ECC

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

1 Our ECC plays a critical coordination role prior to, during, and after a storm.

2 In addition to coordinating with our generating units, our ECC monitors the status of
3 our electrical grid and helps to orchestrate transmission and distribution restoration
4 priorities for maximum system stability and restoration efficiency. At the same time,
5 our ECC stays in contact with the Florida Reliability Coordinating Council and other
6 interconnected utilities to ensure maximum coordination from a statewide
7 perspective.

8 • **Organizational Structure**

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

16 • **Communication**

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

23 • **Anticipation and Preparation**

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

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

- 22 • Damage Assessment

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

- 8 • Restoration

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

- 15 • Sweep

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

19
20 **Q. How well did the Company execute its plan?**

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

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

7
8 **Q. Please describe your communication effort in more detail.**

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

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

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

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

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

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

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

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

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

17
18 **Q. Please explain why the Company filed its Petition seeking recovery of a portion
19 of the storm-related costs.**

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

1 associated with storm damage. Customers support the Reserve through base rates; at
2 the end of this year the value of the Reserve will be \$46.9 million. However, the
3 Reserve was not designed to cover all levels of damage since it would be too costly to
4 do so. The Storm Damage Reserve will bring the total O&M costs of the storms
5 down to \$264.5 million. Of this amount \$251.9 million is allocated to our retail
6 customers. We are here today to ask the Commission to approve a mechanism for the
7 recovery of the Company's prudent and reasonable O&M storm-related costs of
8 \$251.9 million. These are the O&M expenses, net of the Storm Reserve that we
9 incurred to promptly restore service to our customers after each of the storms. We
10 did a good job of promptly, efficiently, and safely restoring electric service to our
11 customers. We believe that recovery of these expenses over a two year period on a
12 dollar for dollar basis through a clause mechanism would be fair to customers and
13 shareholders. We will not make a profit for the amount recovered under our two year
14 proposal.

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

18
19 **Q. Has the Company's storm-related work been completed?**

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

1 transmission and distribution systems. That work is still underway and is due to be
2 completed by 2nd quarter 2005. We estimate the total cost for “sweeps” work to be
3 \$11 million; that amount is included in the total recovery of \$251.9 million.
4

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

6 **A.** Yes. The financial community has been monitoring our hurricane experiences and
7 the impact they have on the Company. They are interested to know the status of cost
8 recovery of our expenses incurred as a result of the storms and how quickly PEF will
9 recover these expenses. We believe it is in everyone’s best interest to resolve any
10 regulatory uncertainty about that as soon as can reasonably be done.
11

12 **Q. Is the Company’s cost recovery proposal consistent with its regulatory**
13 **obligations and fair to the Company’s customers?**

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

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

5
6 **Q. What does the Company propose to do in the future to respond to storm
7 damage?**

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

12
13 **Q. Will you please introduce the Company's other witnesses in this proceeding?**

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

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

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

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

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

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

12

13 **Q. Does this conclude your testimony?**

14 **A.** Yes.

15

1 BY MR. WALLS:

2 Q Mr. Lyash, do you have a summary of your prefiled
3 testimony?

4 A Yes, I do.

5 Q And will you please summarize your testimony for the
6 Commission?

7 A Yes, I will. As I said, my name is Jeff Lyash, and
8 employed by Progress Energy Company, and I am the Senior
9 Vice-President of Energy Delivery for Florida. I am
10 responsible for oversight of all aspects of energy transmission
11 and distribution in Florida.

12 We had an unprecedented hurricane season in 2004 as
13 four hurricanes struck our service territory back-to-back over
14 a six-week period. The damage to our transmission and
15 distribution system was severe, and we experienced over two
16 million cumulative customer outages over the course of the four
17 hurricanes, yet we were able to respond quickly and perform
18 well throughout the preparation and restoration process. We
19 were able to restore power to all customers capable of
20 receiving power within nine days the Hurricane Charley, six
21 days for Hurricane Frances, two for Hurricane Ivan, and five
22 days for Hurricane Jeanne. Our customers appreciated our
23 efforts to keep the power on and restore it quickly to their
24 homes and businesses when there was an outage as you know from
25 our customer service hearings.

1 We were able to perform so well because we have a
2 comprehensive storm plan that includes everything from
3 pre-storm preparation to post-storm restoration. This includes
4 specific storm plans for generation, the energy control center,
5 transmission, and distribution. Our generation storm plan
6 calls for constant monitoring of storm tracks and conditions
7 that take the necessary actions to protect our generating
8 stations and their operations. This includes coordinating with
9 the energy control center which monitors the status of our
10 electrical grid and helps orchestrate the restoration process
11 for transmission and distribution to maintain system stability
12 and restoration efficiency.

13 An important aspect of our storm plan is our
14 communication efforts with our customers and with state, local,
15 and municipal government officials, the Commission and staff,
16 and members and staff of the legislative and executive branches
17 of state government. Our customers demand and need constant
18 communications throughout the hurricane preparation and
19 restoration process concerning storm preparation, outage
20 reporting instructions, safety, restoration efforts, and times.

21 To handle our direct customer contacts we nearly
22 doubled our customer service representatives during the
23 hurricanes, and they handled over 2 million customer outage
24 calls over the course of those storms. In addition to our
25 direct communications with customers, we reach out to them and

1 the public through various media on a constant basis over the
2 course of the storm preparation and restoration so that we can
3 keep them informed. Maintaining this contact and providing
4 them with information is important to them, and it is a
5 function of our storm plan that we take very seriously.

6 Likewise, we recognize that state, local, and
7 municipal officials need access to our personnel for
8 information and input on priorities for storm restoration. We
9 assign a team of representatives to each region to communicate
10 proactively and daily with counties and municipalities to
11 support their emergency response efforts, provide valuable
12 information, and to address local issues. The constant message
13 from these officials and the state officials we dealt with
14 during the hurricanes was to get power restored to as many
15 customers as quickly as possible. That is exactly what we did.
16 And I am very proud of our employees for rising to the occasion
17 and performing so well during what was a massive restoration
18 process.

19 We ask you to recognize that what we did was what our
20 customers and the state and local officials wanted us to do.
21 We ask you to approve our petition to establish a cost-recovery
22 mechanism for our prudent and reasonable storm-related costs in
23 excess of our storm damage reserve. We incurred these expenses
24 properly to restore prompt service to our customers for each of
25 these four hurricanes. Thank you.

1 MR. WALLS: As this time we tender Mr. Lyash for
2 cross-examination.

3 CHAIRMAN BAEZ: Thank you.

4 Ms. Christensen.

5 CROSS EXAMINATION

6 BY MS. CHRISTENSEN:

7 Q Good afternoon, Mr. Lyash.

8 Mr. Lyash, you would agree that Progress as a
9 regulated utility has an obligation to provide safe, reliable
10 electric service within their territory, is that correct?

11 A That is correct.

12 Q And you would also agree that Progress has a monopoly
13 on electric service within its territory, correct?

14 A That is correct.

15 Q Isn't it correct that as part of being a regulated
16 electric monopoly is that you have certain regulatory
17 obligations?

18 A Yes.

19 Q And you would agree that it is part of Progress'
20 regulatory obligation to plan for storms, including hurricanes?

21 A Yes, I believe we have an obligation to provide for a
22 reasonable level of storm response.

23 Q Okay. Progress' regulatory obligation requires it to
24 restart service to customers as quickly and safely as possible
25 after hurricanes, is that correct?

1 A Yes.

2 Q And you would also agree that all of the telephone
3 companies and power companies in Florida have storm plans to
4 deal with hurricanes in advance of the hurricane seasons?

5 A I would assume so.

6 Q Now, isn't it correct that as part of the regulatory
7 obligation between the company, the state, and the ratepayer,
8 the company is provided the opportunity to earn a fair return
9 on its equity?

10 A Yes.

11 Q And you would also agree that some of Progress'
12 customers suffered economic losses due to the multiple
13 hurricanes that hit your territory, correct?

14 A Yes, I would assume so.

15 Q And would you also agree that some of those customers
16 in your territory were hit by more than one of those
17 hurricanes?

18 A Yes, they were.

19 Q And isn't it correct that Progress' position would
20 pass on through a surcharge almost 100 percent of the costs of
21 these hurricanes to customers, a majority of which who suffered
22 in the hurricanes?

23 A I believe the approach that is being taken with the
24 accounting is to charge direct costs to the storms. I don't
25 believe that passes all storm costs on to the customers. We

1 have a substantial amount of work that we did not accomplish
2 during the storms that we have had to make up since then often
3 at a premium price. We have revenues lost associated with the
4 storms, and so while I would agree that we are proposing to
5 pass on the direct costs, as we believe has been the process
6 since Hurricane Andrew, I would not agree that that necessarily
7 implies that we are passing on all costs or all risks to our
8 customers.

9 Q Well, you would agree that those follow-up recovery
10 efforts are costs that Progress intends to include in this
11 recovery, correct?

12 A No. We have a substantial amount of corrective and
13 preventative maintenance and the normal work of the electric
14 utility business that we were unable to accomplish during the
15 period of the storms which we must carry forward and accomplish
16 anyway, and as I said, often at a premium price.

17 Q Well, let me refer you. On Page 12 of your testimony
18 you state that you believe that Progress received
19 dollar-for-dollar recovery of those funds Progress spent on the
20 hurricanes, is that correct?

21 A I'm sorry, could you repeat that?

22 Q On Page 12 of your direct testimony, you indicate
23 that Progress should receive dollar-for-dollar recovery for
24 those funds that it spent on the hurricanes, is that correct?

25 A Yes, we should recover the direct costs associated

1 with the hurricanes.

2 Q You would agree that Progress has charged the storm
3 fund a portion of your regular salary, correct?

4 A I would assume that we charge the storm fund for the
5 direct costs associated with responding to the storm and that
6 would include salaries.

7 Q And that would include part of your regular salary,
8 correct?

9 A I would assume so.

10 Q And you also agree that a portion of the direct storm
11 costs, according to Progress, includes other managers and
12 nonmanagers regular salaries, as well, if they in Progress'
13 words are directly related to the hurricanes?

14 A Yes.

15 Q Isn't it correct the regular salaries of yourself and
16 other Progress employees are included in normal O&M and are
17 paid for by customers through base rates?

18 A Well, under the approach that is being employed here,
19 rather -- and I think this has been said before -- rather than
20 doing what amounts to a mini-rate case that accounts for all
21 costs and all revenue impacts, the approach is to charge direct
22 costs as a straightforward and simple approximation of the
23 impact of the storms.

24 Q Are regular salaries included as part of base rates?

25 A Under normal circumstances, yes.

1 Q Did you in your budgets for September and October
2 include regular salaries for PEF employees?

3 A Yes, for September and October outside of storm costs
4 we would have charged base salaries to base rates.

5 Q Would you have collected for and would you have
6 budgeted for regular salaries for those months?

7 A Yes, we would have in our normal budget at the
8 beginning of the year.

9 Q Isn't it correct that Progress is collecting twice
10 for those regular salaries, once through base rates and once
11 through storm funds?

12 A No, I don't believe that is correct.

13 Q Isn't it correct that base rates cover the cost of
14 vehicles that you and Progress employees drive every day during
15 the normal course of business?

16 A Yes, the budget does cover normal vehicle costs.

17 Q And isn't Progress charging a portion of that vehicle
18 cost to the storm fund if that vehicle was used for hurricane
19 restoration operations?

20 A No, I believe Progress is charging the direct cost of
21 the vehicle that was used to support storm restoration to the
22 storm fund.

23 Q Since base rates cover the cost of the vehicles,
24 wouldn't you agree that customers should not have to pay again
25 for those vehicles through the storm surcharge?

1 A Once again, those vehicles are employed to do the
2 core work of the utility and the core work of the utility will
3 be done either during the storm period, or as in this case,
4 subsequent to the storm period stretching into this year
5 incurring those base costs.

6 Q And what you are referring to is essentially catch-up
7 work?

8 A All of the work that was not accomplished during the
9 period of the storms which must subsequently be accomplished.

10 Q So it is your theory that catch-up work offsets
11 double-dipping?

12 A Well, I'm not entirely clear on why you characterize
13 it as double-dipping. All I can say is that the work that
14 would have been done, the work that our folks do every day of
15 the year does not cease to exist because a storm has occurred.
16 There is still equipment that must be maintained, new customers
17 that must be connected, and preventive and corrective
18 maintenance that must be accomplished, and to the extent that
19 that is not done during the storms, it is our responsibility to
20 complete that work to maintain and preserve the reliability of
21 the system and the quality of the customer service.

22 Q Am I correct that when you refer to extraordinary
23 storm-related costs, Progress includes normal salaries and
24 vehicle expenses?

25 A I'm sorry, say that again.

1 Q Am I correct in assuming under your definition that
2 when you refer to extraordinary storm-related costs you are
3 including a portion of normal salaries and vehicle expenses?

4 A I am including vehicle expenses and salaries for
5 those vehicles and individuals who directly supported the
6 storms.

7 Q And am I correct also to understand that all of these
8 costs are considered extraordinary because they are related to
9 hurricane restoration rather than the portion of the costs that
10 are above normally expected costs?

11 A I think, as I said before, the approach that is
12 undertaken here rather than accounting for in a rate case like
13 proceeding all costs and revenues is to approximate costs by
14 charging direct costs and that is, in fact, what we are doing
15 here. The notion that somehow the work that otherwise would
16 have been done evaporates, I think, is flawed.

17 Q Well, you would agree that some of that work may go
18 away as a result of the storm, correct?

19 A No.

20 Q Well, let me ask you this. Regarding communication,
21 would you agree that part of your basic regulatory obligation
22 is to keep your customers informed during emergencies such as
23 tornados and hurricanes?

24 A Yes.

25 Q And would you also agree that you have included

1 public information expenses in the costs that make up the
2 surcharge Progress is proposing in this docket?

3 A Our base operation and our base charges are
4 predicated on noncatastrophic, nonrecurring events. In a case
5 like a hurricane where it is catastrophic, nonrecurrent, and
6 extreme, we need to spend a substantial additional amount of
7 monies communicating with the customers. As I said, doubling
8 call center representatives, communicating through the media so
9 that they understand our response and can plan accordingly, and
10 so they get the sort of safety messages that we think are
11 important to them.

12 Q So your answer is yes, you have included some public
13 information and communication expenses in the storm request?

14 A Yes.

15 Q Now, on Page 10 at Line 11 of your testimony, you
16 start discussing -- well, Pages 9, 10, and 11 you discuss these
17 communications, correct?

18 A What page are you on?

19 Q Through Pages 9, 10, and 11 you discuss
20 communications, correct?

21 A Uh-huh, yes.

22 Q On Page 9, Line 11, you state that it was important
23 for us to reinforce key messages with our customers, is that
24 correct?

25 A That is correct.

1 Q And you also state on Page 9 that it was important
2 that Progress communicate to local government authorities,
3 correct?

4 A That is correct.

5 Q And then referring to Page 10, Line 13, you state we
6 had extensive communications efforts with the public and the
7 media, correct?

8 A Correct.

9 Q And on Page 11, Line 13 of your testimony, you state
10 that you are going to bill customers approximately \$3.6 million
11 extra for providing this service, is that correct?

12 A Correct.

13 Q So it is Progress' position that base rates don't
14 cover the expense of keeping the public and governmental
15 agencies informed in case of emergencies as part of your
16 regulatory obligation?

17 A Well, I think there are two points to be made. The
18 first is that the scope and cost of the communication efforts
19 associated with this type of catastrophic events go beyond what
20 was contemplated in base rates. I believe that to be the case.
21 And the second is, once again, back to the notion of charging
22 direct costs as an approximation of customer impact as opposed
23 to a more extensive rate proceeding.

24 Q So let me ask you this, is it Progress' position
25 because they did a good job in restoring service, Progress

1 should be given a dollar-for-dollar recovery through a clause
2 and this would be fair to customers and shareholders, is that
3 correct?

4 A That is your characterization of our position. I
5 think Mr. Sasso stated our position clearly in the opening
6 statement.

7 Q Under Progress' position, your shareholders would pay
8 essentially nothing toward storm recovery, is that correct?

9 A I believe our shareholders are picking up risk, risk
10 associated with what went into preparing for these storms, the
11 lost revenue, the premiums that we need to pay to make the
12 system whole once again, which will continue to come out over
13 the next weeks and months and perhaps years.

14 Q Mr. Lyash, if you are familiar, did your return on
15 equity go up between June 2004 from approximately 12.5 percent
16 to December of 2004 up to 13.6 percent?

17 A That is a question I would defer to Mr. Portuondo,
18 our regulatory accounting person.

19 Q Okay. As part of the regulatory compact, the
20 Commission as the regulator, through base rates ensures that
21 Progress receives a fair return on its development, is that
22 correct?

23 A Yes.

24 Q And isn't it correct that the storm firm accrual has
25 been collected through base rates?

1 A That is correct.

2 Q Isn't it also correct that storm-related funds have
3 never been collected through a clause prior to this request?

4 A I'm not clear on the point, I can't really say.

5 MS. CHRISTENSEN: I have no further questions.

6 CHAIRMAN BAEZ: Mr. McWhirter.

7 CROSS EXAMINATION

8 BY MR. McWHIRTER:

9 Q Mr. Lyash, on a scale of one to ten, how would you
10 rate your public relations program?

11 A I'm not sure how to respond. I'm not sure what a
12 scale of one to ten in terms of public relations really means.
13 I would say that it is a focus that we have during normal
14 operations, but particularly when things are abnormal, because
15 that is when people really want and need the information. I
16 guess I could put an arbitrary number on it. I'm not sure what
17 it would mean.

18 Q Well, would you say your public relations program is
19 poor, good, or excellent?

20 A I would say it is very good.

21 Q And the cost of your public relations program, you
22 include that in base rates?

23 A I would imagine so, some perhaps not all. I'm not
24 clear.

25 Q And do you know during the storm period how the

1 normal salaries were treated? Were they added to your storm
2 recovery costs?

3 A The normal salaries associated with those individuals
4 directly supporting storm recovery are part of this filing.

5 Q All right. Now, I was a little bit concerned when
6 you said that you have backup work such as connecting customers
7 that still needs to be performed. Do you have customers that
8 needed connection in September that are still not connected
9 today?

10 A Well, we have a lot of customers, so I don't want to
11 give a specific accounting, but in general what I would tell
12 you is that during the six-week period of the storms there was
13 very little customer connect work done because of the nature of
14 the events, and that that work needed to be caught up. And
15 that the additional customer connect work really surges after a
16 storm of this nature because of the pent up demand as business
17 ramps back up as power is restored, and that creates a large
18 catch-up wave that would have materialized during the six weeks
19 but not for the storm.

20 We work very directly with our customers to negotiate
21 connect dates, and post-storm we have had to negotiate connect
22 dates that were not optimal with customers, and they generally
23 understand. We try to do it as expeditiously as possible
24 within the constraints of the resources and physical materials
25 available.

1 Q Can you give me the beginning and ending date of the
2 storm period that you classify? Did it start August 6th and
3 end on September 15th, or what was the time period?

4 MR. WALLS: I'm going to object to the question. It
5 is unclear to me what he means by storm period. Does he mean
6 the actual time the storm occurred, the time preparing for it,
7 the time restoring it? I'm not clear.

8 MR. McWHIRTER: Well, I am referring --

9 Q In your answer to my last question you talked about
10 the six-week storm period. What six weeks is that?

11 A Well, that was kind of a casual reference to that
12 period of time that the storms were actually impacting the
13 Florida service territory.

14 Q And that began when and ended when?

15 A I don't have the dates in front of me. Sometime in
16 August into September.

17 Q And ended sometime around mid-September?

18 A (Indicating yes.)

19 Q And you had people waiting for normal connection in
20 mid-September that are not connected yet?

21 A Well, keep in mind that a lot of our customer
22 connects we work with developers and industry who have a scope
23 of work. It is not necessarily a customer who is sitting at
24 home with the lights out. It is installing infrastructure,
25 underground networks, transformers, building overhead

1 extensions. To put the system in a condition where we can
2 support the on-going stream of connections that come with a
3 growing economy like Florida's.

4 Q Have you performed any analyses, and can you give us
5 any specific numbers as to the quantity of that kind of make-up
6 work that was not performed in 2004 and must be performed in
7 2005?

8 A I believe some of the subsequent witnesses may be
9 able to give you specifics on that.

10 Q Beg your pardon?

11 A I said I believe some of the subsequent witnesses may
12 be able to give you specifics on that. I don't have it in
13 front of me.

14 Q You don't have it? Do you think there is such an
15 analysis available?

16 A I believe we understand the extent of new customer
17 connect catch up that needed to be done, yes.

18 Q Well, all I'm trying to get at is Mr. Sasso mentioned
19 it in his opening statement and you have mentioned it that
20 there is a lot of backup work that must be completed. And then
21 we also have the fact that the \$366 million that is claimed in
22 this case is an estimate of past and future work, and I was
23 just trying to see if you could compartmentalize some of those
24 ordinary expenses that weren't performed that have to be
25 performed in the future and give us a number for that?

1 A Yes. I'm sorry, I can't, as I sit here, do that
2 quantitatively. Qualitatively I can say that the nature of the
3 work that we were faced with as we have already discussed is
4 new customer connects. And, again, that is more than a meter.
5 That is construction of the system necessary to deliver that
6 power. But also preventive and predictive maintenance work.
7 Every day we are out there inspecting, treating, bracing poles,
8 doing production related tree trimming that maintains normal
9 levels of reliability. Transformer inspections, repairs, and
10 replacements. With a system this large, that is a daily set of
11 tasks that has to run on a sequence, and if you fall behind you
12 have to catch it up.

13 Q And for your distribution system where most of the
14 costs occurred, when you brought in all of those extra crews
15 and your crews went out and trimmed a lot of trees, that
16 relieved you from the responsibility of having to do it in
17 2005, didn't it?

18 A No, it didn't. I wish it were so. The nature of
19 damage that you see during storms does not at all relieve you
20 of what you have to do in the normal course of business to
21 maintain system reliability. Oftentimes the pole that has come
22 down because a tree outside the right-of-way took it down could
23 be a brand new pole. As a matter of fact, you may have had to
24 replace that pole more than once during the storms because of
25 the conditions.

1 So that the nature of the damage that you sustain
2 during these hurricanes really does not relieve you of any of
3 your normal maintenance work. Oftentimes we find that it, in
4 fact, creates incipient damage in the system that we don't
5 discover until later, so it, in fact, increases your routine
6 maintenance and replacement work scope.

7 Q Did you put up a lot of brand new poles and a lot of
8 brand new pots on those poles, those transformers?

9 A Where we had poles down we replaced them. I believe
10 we replaced 7/10ths of one percent of the poles on our system
11 as an example. So that in terms of the maintenance work we are
12 talking about that leaves an awfully large population of poles
13 that were not touched.

14 Q Are those temporary poles or permanent poles?

15 A They could be either. Oftentimes we would replace
16 them with a permanent pole, and in cases where we needed to
17 make a temporary repair to restore service more quickly, we did
18 that and we would subsequently come back and have to redo that
19 with a permanent repair.

20 MR. McWHIRTER: That's all the questions I have.
21 Thank you, Mr. Lyash.

22 CHAIRMAN BAEZ: Mr. Wright is not here.
23 Mr. Twomey.

24 MR. TWOMEY: Yes, sir, Mr. Chairman, I think I just
25 have a couple.

CROSS EXAMINATION

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BY MR. TWOMEY:

Q I would ask you to look at Page 12 of your testimony, line 13. Speaking to the money that you want to get through the two-year surcharge you want the Commission to approve for recovery from your customers, you say at Line 13, "We will not make a profit for the amount recovered under our two-year proposal." Do you see that?

A Yes, I do.

Q Where do you think that money is going to go?

A I don't understand the question.

Q I mean, if it is not going to go to profit, where is it going to go?

A I think the intent of the statement is that we spent these monies directly in recovery from the storm and so we are looking for recovery of the cost, not something that we are going to earn a profit on or earn in the long-term, it is a recovery of the expenditures made.

Q Yes, sir. But I thought I heard you agree with Ms. Christensen that, for example, if you had a lineman that typically worked eight hours a day and that line individual, person, whatever they are called now had eight hours a day of salary built into your O&M budget covered by your rates, I understand that that person was dedicated to storm recovery, you want to have not only the overtime that person worked, but

1 the base eight hours charged to storm recovery, correct?

2 A Yes. And I think your point is based on the notion,
3 once again, that the eight hours worth of work that the lineman
4 would have otherwise done somehow evaporates, and I think that
5 premise is incorrect.

6 Q Have you lined out in anyplace where all those base
7 salaries are going to be expended in overtime later in the next
8 six months or have already?

9 A We have an entire family of programs that we apply to
10 the system to maintain it. The example we discussed a little
11 bit earlier was poles, and so we would essentially implement
12 the program as originally laid out using the labor that is
13 necessary to implement that program. So, you know, in response
14 respond your question, we have a clear scope of work and we
15 have clear programs and plans to execute it and we will do
16 that.

17 Q Yes, sir, but let me ask you more specifically. Has
18 your company in this case provided an exhibit that shows where
19 specifically it is going to expense all of those base hours on
20 makeup work in the future?

21 A I don't know. I don't know if we have provided that
22 exhibit.

23 Q And wouldn't you agree with me that if you don't
24 identify the base dollars that have to be expended in makeup
25 work that will necessarily go to profit?

1 A Could you repeat that?

2 Q Yes, sir, I will try. You have got built into your
3 budget let's say for the month of July, so many dollars for a
4 lineperson's eight hour day. A hurricane comes. That day they
5 work a 16 hour day, eight hours base, and eight hours of
6 overtime. Instead of incrementally just charging the customers
7 for the overtime, which is what the bulk of the customer
8 representatives here want to see you do, you want to charge
9 overtime plus the base eight hours, correct?

10 A The direct costs associated with the storm, yes.

11 Q Yes, sir. You are telling me, if I hear you, that
12 base eight hours, the dollars that are built into base rates,
13 aren't going to be extra to the company because you are going
14 to expend it someplace else in doing work that has to be made
15 up, correct?

16 A Yes, and I think that is what the customers and the
17 Public Service Commission expect, that we will catch those
18 programs up, we will maintain our level of reliability and
19 customer service and not just allow that work to go undone.

20 Q Yes, sir. And I asked you if you or the company has
21 provided an exhibit that shows where each and every one of
22 those base dollars that is going to be expended in making up
23 work, and I think your answer was you didn't know whether it
24 had or not, correct?

25 A Correct.

1 Q And my question was don't you agree with me that if
2 we can find where the dollars aren't identified to be spent in
3 makeup work, that they necessarily have to go to profit?

4 A Well, I think the line of questioning that we are
5 engaged in here also sort of ignores the fact that the recovery
6 approach that we are suggesting here is to charge direct cost
7 and then to recover direct cost as opposed to going through an
8 extended process that looks at revenues and expenses and gives
9 perhaps a more complete but very difficult characterization of
10 the impact. So that, you know, the one issue is the
11 double-dipping that has been mentioned, and I don't believe
12 that is the case. But the second issue I think has to do with
13 the process that we believe is in place for the storm
14 cost-recovery and how all those pieces come together. So I'm
15 not convinced that picking this one item gives you a meaningful
16 result.

17 Q Did you understand my last question?

18 A Yes, I did, and I believe I am answering it.

19 Q Well, are you capable of answering it yes or no?

20 A I am certainly capable --

21 MR. WALLS: I am going to object as argumentative.

22 MR. TWOMEY: Mr. Chairman --

23 THE WITNESS: If your question is that --

24 CHAIRMAN BAEZ: Hold on, Mr. Twomey. And maybe I
25 should have laid out the ground rules, Mr. Lyash. I don't

1 recall you testifying before the Commission before, but if you
2 can start your answers yes or no.

3 THE WITNESS: Okay.

4 CHAIRMAN BAEZ: And I am certain you are going to get
5 questions that you can do that, but where you do go and then
6 you can elaborate on your answers. We will try that one again.

7 BY MR. TWOMEY:

8 Q Again, the tail end of the question, if the company
9 cannot identify specifically where the base dollars in your
10 budget for salaries, for example, is going to be spent in
11 makeup work, don't you agree with me that it necessarily has to
12 go to profit?

13 A Yes.

14 MR. TWOMEY: Thank you. That's all I had, Mr.
15 Chairman.

16 CHAIRMAN BAEZ: Staff?

17 MS. RODAN: Staff has no questions.

18 CHAIRMAN BAEZ: Commissioners, do you have questions?
19 Commissioner Deason, do you have a question?

20 COMMISSIONER DEASON: I have a question concerning
21 the so-called makeup work. Is that a term that you would
22 accept, makeup work, or how do you define -- I'm talking about
23 you indicate in your testimony there is a certain amount of
24 work that could not be performed during the restoration efforts
25 because obviously restoration was the primary focus and some of

1 the more normal routine maintenance or whatever gets deferred,
2 is that correct?

3 THE WITNESS: That is correct.

4 COMMISSIONER DEASON: And I will just refer to that
5 as makeup work, is that fine?

6 THE WITNESS: That's fine.

7 COMMISSIONER DEASON: Is all the makeup work done now
8 or is that something that is continuing to be done?

9 THE WITNESS: It is continuing.

10 COMMISSIONER DEASON: Is that makeup work being done
11 through normal work force efforts or is it being done through
12 overtime?

13 THE WITNESS: Primarily overtime and contractor
14 support.

15 COMMISSIONER DEASON: And that information has not
16 been provided to the Commission?

17 THE WITNESS: The information has been provided. It
18 has been requested in discovery. We were asked in discovery to
19 identify projects of greater than 100,000 and greater than
20 20,000 that were left undone. We have done that. Mr. Wimberly
21 has also included in his testimony the categories of makeup
22 work that need to be done, and his rebuttal testimony includes
23 that that is going to cost the company over \$25 million to do,
24 so the evidence does exist.

25 COMMISSIONER DEASON: Thank you, Mr. Chairman.

1 CHAIRMAN BAEZ: Commissioners, any other questions?

2 Redirect.

3 MR. WALLS: I will try to be brief.

4 REDIRECT EXAMINATION

5 BY MR. WALLS:

6 Q Mr. Lyash, you have said this a couple of times, but
7 just to be clear, when you have an employee who comes in to
8 work on a day that there is a hurricane that hits, and he is
9 reassigned to do work on the hurricane restoration, does the
10 work he was supposed to do that day go away?

11 A No, it does not.

12 Q And could you explain generally the nature of the
13 types of makeup work that you are aware of within the company
14 that has to be done and has been done over the past few months?

15 A Uh-huh, yes. With an asset this extensive, we have
16 just a whole family of programs that go at corrective and
17 preventive maintenance. As an example, what we discussed was
18 the poles. We inspect, we chemically treat, we brace, and we
19 replace poles on an ongoing basis. And that is targeted at
20 maintaining system reliability. That same type of program
21 would apply to pole-top transformers, pad-mounted transformers,
22 capacitor banks, et cetera. So, that maintenance work. There
23 is also right-of-way maintenance work; mowing, herbicide,
24 production related tree trimming that has to be implemented,
25 once again, to maintain the system. And then lastly,

1 infrastructure additions that are needed to support new
2 connects in terms of commercial, industrial, or residential
3 accounts.

4 Q And, Mr. Lyash, it has been suggested that the
5 hurricane work that was done, such as putting up new poles and
6 new lines, displaces PF's maintenance work, is that true?

7 A No, I don't believe that to be the case.

8 Q And can you explain, give some examine of why it
9 would not displace your maintenance programs?

10 A As I said earlier, the nature of this hurricane
11 damage doesn't pick on components that are at the end of their
12 life. It is related to tornados that are spun off during the
13 hurricane, wind loadings on components beyond their design,
14 trees outside the right-of-way that become an impact component
15 so that the damage really doesn't fit with or provide you much
16 credit toward your routine maintenance of the system.

17 Q And by the way, Mr. Lyash, where were you last
18 Friday?

19 A Last Friday I was out on Treasure Island with a line
20 crew rebuilding a feeder associated with some work that is
21 going on out there.

22 Q And how long had that crew been working?

23 A Pardon me?

24 Q What type of hours was that crew putting in?

25 A They are currently on -- that particular crew is

1 currently working a minimum of six days a week, ten hours a
2 day.

3 Q And why are they on that schedule?

4 A Because of the backlog of work that we have got to
5 complete.

6 Q And, Mr. Lyash, will Progress Energy Florida spend
7 more and has it spent more to complete this backlog of work
8 than it would have if the hurricanes had not occurred?

9 A Yes. Certainly, because for the reason that you
10 might imply from that crew schedule, you know, at six tens we
11 are 50 percent overtime at a premium price, and we have got to
12 supplement that work force with contract work force, as well.

13 Q And, Mr. Lyash, you were asked some questions about
14 the types of charges that have been incurred by the company
15 during the hurricane restoration process, and you were in
16 particular asked about your salary that was charged to the
17 storm costs.

18 What were you doing during the storm?

19 A I was out on the system either with our work crews or
20 with dealing with the EOC's elected officials, customers
21 resolving -- understand and resolving their hurricane related
22 issues.

23 Q And did the EOC's officials indicate that it was
24 important for management to be present with them when they were
25 trying to deal with these hurricanes?

1 A Yes. I think it is critically important. They have
2 got a heavy emergency response workload and for them knowing
3 that one of the critical components, power, is going to be
4 well-managed, and understanding first-hand how we are doing
5 that, I think, is vital to them. That is what they have told
6 me.

7 Q And is that the type of work that you would have
8 normally been doing had there been no hurricanes?

9 A No, it is not.

10 Q You were also asked questions about your direct
11 testimony, in particular at Page 9, Line 11, regarding
12 reinforcing key messages to customers. And Ms. Christensen
13 didn't read the last part of that sentence. What were you
14 reinforcing the messages to customers about in your direct
15 testimony?

16 A Well, we reinforced with customers the sorts of
17 preparations they ought to do to their home to make them safe
18 from an electrical power point of view, what sorts of damage
19 they might have to their home that they should look for, and
20 for which they need to gauge a licensed electrician to repair
21 so that it can expedite their return to service. Also
22 information both general and specific about their restoration
23 schedule so that they can plan their lives around that.

24 Q And you were asked whether you had normally budgeted
25 for communications. Can you describe the level of

1 communications that took place during the 2004 hurricane
2 season?

3 A Oh, just extraordinary. We had communication centers
4 set up around the system that were just constantly engaged with
5 the press to put out information, with the EOCs, with elected
6 officials to make sure that the information was current.

7 Q And is that the type of level of communication that
8 was contemplated in your budget?

9 A No, certainly not.

10 MR. WALLS: I have no further questions.

11 CHAIRMAN BAEZ: Exhibits.

12 MR. WALLS: Yes. We would move in Mr. Lyash's
13 exhibits which have been identified.

14 CHAIRMAN BAEZ: And I am showing only 7 and 8, right?

15 MR. WALLS: Yes.

16 CHAIRMAN BAEZ: Without objection, show Exhibits 7
17 and 8 moved into the record.

18 (Exhibit 7 and 8 admitted into the record.)

19 CHAIRMAN BAEZ: Thank you, Mr. Lyash. You are
20 excused.

21 Next witness.

22 MR. WALLS: At this time we would call Mr. McDonald.

23 **DAVID McDONALD**

24 **was called as a witness on behalf of Progress Energy Florida,**
25 **and having been duly sworn, testified as follows:**

DIRECT EXAMINATION

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BY MR. WALLS:

Q Mr. McDonald, will you please introduce yourself to the Commission and provide your address?

A My name is David McDonald. My address is 1486 72nd Avenue Northeast, St. Petersburg, Florida 33702.

Q And, Mr. McDonald, have you already been sworn in as a witness?

A Yes, I have.

Q Who do you work for and what is your position?

A I work for Progress Energy Florida. I am the Director of Distribution Asset Management.

Q And have you filed prefiled direct testimony and exhibits in this proceeding?

A Yes, I have.

Q And do you have those in front of you?

A Yes, I do.

Q Do you have any changes to make to your prefiled testimony and exhibits at this time?

A No, I do not.

Q If I asked you the same questions in your prefiled testimony today, would you give the same answers that are in your prefiled testimony?

A Yes, I would.

MR. WALLS: We request that the prefiled testimony of

1 r. McDonald be moved into evidence as if it was read in the
2 record.

3 CHAIRMAN BAEZ: Without objection show the direct
4 testimony of Witness McDonald entered into the record as though
5 read.

6

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FPSC DOCKET NO. 041272-EI

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

DIRECT TESTIMONY OF DAVID MCDONALD

I. INTRODUCTION AND QUALIFICATIONS

1

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

3 **A.** My name is David McDonald. I am employed by Progress Energy Florida, Inc.
4 ("PEF" or the "Company"). My business address is 100 Central Avenue, St.
5 Petersburg, Florida.

6

7 **Q. Please tell us your position with Progress Energy Florida, Inc., and describe**
8 **your duties and responsibilities in that position.**

9 **A.** I am the Director of Distribution Asset Management in PEF's Energy Delivery
10 Business Operations. I direct and manage the engineering personnel and program
11 coordinators responsible for engineering complex relocation and infrastructure
12 expansion work requests for the entire PEF system.

13 I am also the Storm Coordinator for PEF's distribution system. Sarah Rogers
14 is the Company's Transmission System Coordinator, which is the Storm Coordinator
15 position for transmission, and she will be providing testimony in this proceeding
16 describing the Company's transmission storm plan and the execution of that plan for
17 Hurricanes Charley, Frances, Ivan, and Jeanne. My testimony describes the

1 Company's storm plan for its distribution system and how it was executed during the
2 extraordinary circumstances of four back-to-back hurricanes in August and
3 September 2004.

4
5 **Q. Please summarize your educational background and employment experience.**

6 **A.** I have a Bachelor of Science in Electrical Engineering from the University of
7 Kentucky in 1984. I am PEF's Director of Distribution Asset Management and Storm
8 Coordinator. I personally participated in the discussions reviewing the storm plan
9 following each storm to improve the plan for subsequent storms should they strike
10 PEF's service territory.

11 Prior to assuming my current roles for PEF, I was the Distribution Control
12 Center Director, which focused on the operation of the distribution system grid and
13 the coordination of PEF's nineteen (19) operating centers throughout its service
14 territory. Earlier, I served as a Distribution Region General Manager for PEF and a
15 Distribution Region Engineering Supervisor for Progress Energy in the Carolinas.
16 Prior to joining Progress Energy in 1998, I held a number of supervisory and
17 management positions for Florida Power & Light Company.

18
19 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

21 **A.** I am testifying on behalf of PEF in support of recovery of the Company's storm-
22 related costs due to Hurricanes Charley, Frances, Ivan, and Jeanne. The total storm-
23 related costs to the Company are approximately \$366 million. I will discuss the

1 operation of the storm plan, which commences well before the storm strikes to
2 prepare for its impact, continues through the storm as the Company responds to and
3 recovers from the storm damage, and ends with the Company's attempts to identify
4 and correct further storm damage that was not addressed during the restoration
5 process but must be addressed to restore the distribution system as much as possible
6 to its pre-storm condition. I will include the Company's goals and priorities as it
7 prepares for, responds to, and recovers from the storm's impact on its distribution
8 system.

9 I will also take each hurricane in the order that the four hurricanes struck
10 PEF's service territory and describe the storm's intensity, path of destruction, and the
11 damage to PEF's facilities in its service territory caused by each storm. I will further
12 describe the Company's successful efforts at implementing its plan to respond to the
13 storms and, ultimately, to restore electric service to its customers.

14
15 **Q. Are you sponsoring any exhibits to your testimony?**

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

17 **DM-1 PEF's Distribution Storm Plan.**

18 **DM-2 Sample ETR's for Hurricane Frances.**

19 **DM-3 Example of Daily Goals for Each Hurricane.**

20 **DM-4 Wind Field Map of Hurricane Charley's Impact on PEF's Service**
21 **Territory.**

22 **DM-5 Wind Field Map of Hurricane Frances' Impact on PEF's Service**
23 **Territory.**

1 **DM-6 Wind Field Map of Hurricane Ivan's Impact on PEF's Service**
2 **Territory.**

3 **DM-7 Wind Field Map of Hurricane Jeanne's Impact on PEF's Service**
4 **Territory.**

5 **DM-8 Composite Exhibit of Pictures of Distribution Storm Damage.**

6 Each of these exhibits was prepared under my direction, and each is true and accurate.

7
8 **Q. Please summarize your testimony.**

9 **A. The Company has a storm plan with centralized control of overall mobilization,**
10 **staging of crews, logistics support, and damage assessment. The plan defines key**
11 **roles and responsibilities of those who work in the storm center as well as those in**
12 **support roles. Our organizational structure and storm response plans allow our local**
13 **field offices to focus entirely on restoration of service and customer service.**
14 **The plan further represents the best practices of PEF and its sister company in the**
15 **Carolinas and, thus, incorporates the know-how gained in the Carolinas as a result of**
16 **more recent experience with hurricanes and ice storms there. The Company also**
17 **works on and drills on the plan in advance of storm season. As the storm season**
18 **approaches, implementation of the plan commences well before the impact of major**
19 **storms are felt on PEF's service territory to adequately prepare to respond to them.**
20 **Advanced computer modeling tools are employed to predict the storm path, intensity**
21 **and damage in conjunction with an outside weather service. This is constantly**
22 **updated as the storm draws closer to have the most up-to-date information possible.**
23 **In advance of the storm, resource needs are identified and commitments are obtained,**

1 logistical needs are planned and arrangements made, and material and equipment are
2 obtained and readied to be deployed. All of this is accomplished in order to
3 commence safe storm restoration efforts as soon as the storm passes.

4 Storm restoration begins with pre-established priority restoration work and
5 damage assessment. The priorities are established as a cooperative effort with state
6 and local government emergency relief personnel and to restore electric power to
7 critical customers and the most customers as soon as possible. The damage
8 assessment provides the information necessary to immediately direct crews to the
9 areas that are in need of restoration work. This process is continued until all
10 customers have been restored.

11 Our storm plan does not end with our restoration efforts. The goal of
12 restoration is to get customers back in service as quickly as possible. After that is
13 accomplished, we conduct sweeps of our system to identify storm damage that did not
14 need to be addressed in order to restore service but nevertheless must be addressed to
15 put the distribution system back in the condition it was in prior to the storms.

16 The impacts of Hurricanes Charley, Frances, Ivan, and Jeanne were
17 devastating to customers in PEF's service territory. They presented unique
18 challenges as PEF implemented its storm plan to prepare for, respond to, and recover
19 from the four back-to-back hurricanes. Lessons were learned and incorporated into
20 the storm plan as we moved from storm to storm. The greatest lesson learned,
21 though, is that our storm plan works. It proved to be an effective and efficient tool to
22 restore customer service as quickly as possible following the storms.

23

III. THE COMPANY'S STORM PLAN

1

2

Q. Please provide a summary of PEF's storm plan and restoration process.

3

A. Our restoration efforts from a hurricane or major storm begin months before the start

4

of the storm season. We have developed a very comprehensive storm plan that

5

incorporates the best practices from the restoration experiences of Progress Energy

6

Carolinas, Inc. ("PEC"), PEF, and other industry leaders. This storm plan addresses

7

three different phases of storm restoration response, varying response levels of our

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storm restoration model, and various roles that are necessary to support the storm

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restoration effort and effectively communicate to our customers the status of our

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efforts.

11

The different phases include pre-storm preparation, outage restoration, and

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distribution system restoration. Our pre-storm preparation begins as early as 120

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hours prior to projected landfall of the hurricane, and includes damage estimation,

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required resource supplementation, and supporting logistic needs. The outage

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restoration phase includes all the activities following the impact of the storm that

16

restore service to all those customers capable of receiving it. The system restoration

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phase is where we restore our electrical infrastructure to its pre-hurricane condition.

18

There are four distinct levels of restoration response from a Level I model to a

19

Level IV model. The difference in the response levels is driven by changes in the

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management of the restoration resources and the type of resources employed for the

21

restoration. These varying levels determine the type of restoration effort that we must

22

undertake to efficiently restore our system. The determination of the restoration level

23

to establish is made by the storm management team as a result of modeling and

1 reviewing the damage assessment information. A level I response is our typical daily
2 response under normal operating conditions. Using our outage management system
3 as the damage assessment tool, and our own troublemen as our primary restoration
4 resource, we restore outages under normal operating conditions based upon the
5 hierarchy of the most customers affected by the interrupted device. Our highest level
6 and most complex restoration process is our level IV response. This level is used
7 when we encounter the most severe levels of devastation. It requires teams of
8 damage assessors to identify and quantify the extent of damage and an extensive
9 amount of off-system supplemental resources to aid in the restoration efforts.

10 Variations between a level I restoration and a level IV restoration are
11 determined by the source of restoration resources, whether the Company is relying on
12 resources from the same region where the work must be done, other regions of the
13 Company, or outside resources, and who is managing those resources during the
14 restoration process. The flexibility of the storm plan is that, for any given storm
15 restoration effort, we may have a region that is operating within the Level IV model
16 while another region is operating within a Level I model. This allows regions within
17 the Company operating at a lower restoration level to release available resources for
18 restoration work in regions operating at a higher restoration level.

19 Within the storm plan are a multitude of roles that facilitate an efficient
20 restoration process. These roles are focused along four lines: (1) overall storm
21 response; (2) operational response; (3) support response; and (4) customer response.
22 The overall response deals with those functions that are responsible for managing all
23 aspects of our restoration response. The operational response deals with those

1 functions that are focused on the actual restoration efforts. The support response
2 concerns those functions that provide the necessary materials, equipment, supplies,
3 and logistics to support the other functions. The customer response is focused on
4 providing accurate and timely information to all of our customers.

5 Within each of these functional areas, there are structured processes and well-
6 defined roles for all participants. The participants under the storm plan include PEF,
7 PEC, and outside resources, all of whom may be called on to successfully execute the
8 restoration efforts. The actual administration and management of the storm plan,
9 however, is limited to PEF personnel, with the other resources providing support and
10 supplemental roles.

11 The participants are assigned roles under the storm plan that may differ from
12 their daily responsibilities under normal operation conditions and, as a result, it is
13 imperative that they are effectively trained. This training is normally completed in
14 the second quarter of each year throughout the system and within each of the
15 functional areas of responsibility. To further ensure our storm preparedness, we
16 conduct storm readiness drills in order to test the effectiveness of the training and the
17 employee's ability to execute their assigned storm role. This drilling is completed in
18 the month of May. Furthermore, to ensure that our storm restoration plan is
19 coordinated with the state-wide storm preparedness, we participate in the state
20 Emergency Operations Centers ("EOC") coordinated storm drill conducted each May
21 in Tallahassee.

22 A critical component of our storm plan is the way in which we communicate
23 the status of our efforts within the three restoration phases to our customers. It is

1 imperative that we communicate this status frequently to state and local governments,
2 the Florida Public Service Commission staff, and to our customer base, including our
3 retail commercial, industrial, governmental, residential and wholesale customers. All
4 of these constituencies are dependent upon this information to make critical decisions
5 of their own and, hence, the timeliness and accuracy of our status reports are critical.
6 A copy of our distribution storm plan is included as Exhibit ___ (DM-1) to my
7 testimony.

9 IV. IMPLEMENTATION OF STORM PLAN: PRE-STORM PREPARATION

10 **Q. When and how do you begin your preparations for a major storm?**

11 **A. As part of our preparation, we continually monitor the weather information and when
12 a tropical weather condition is identified that has the potential of impacting our
13 territory within the next 120 hours, we initiate our pre-storm preparations. Our first
14 focus is to initiate a dialogue with our weather service provider, WSI, so that we can
15 ascertain more detailed weather information.**

16 We are interested in determining the date, time, and strength of the hurricane
17 when it impacts our system, the path of the storm, the size and strength of the wind
18 fields, the associated amount of precipitation, when the wind exceeds and falls below
19 35 mph, and the strength of the gusts. Although this information is very sketchy at
20 the 120-hour mark, we use what we have in a storm modeling tool to predict the
21 amount of damage to our system, where that damage will likely occur, and the
22 amount of resources required for restoring the expected outages. More specifically,
23 the tool estimates the number of personnel required, such as linemen, tree trimmers,

1 and damage assessors. This gives us an estimate of the type of restoration effort that
2 is before us.

3 Once that model provides us the information, we conduct a system storm call
4 that includes the management team representing the four functional areas (overall
5 storm response, operational response, support response, and customer response) of
6 our storm response. This call is to initiate those activities that are to be completed
7 based upon the 120-hour information. At this point the efforts are more focused upon
8 notifications to our customers and employees of a potential impact and the beginning
9 of our storm readiness activities and our initial efforts to procure resources. We
10 duplicate this process at the 96-, 72-, 48-, and 24-hour marks prior to system impact
11 from the storm. At each successive 24- hour interval, with more and improved input
12 data, the model refines each of the attributes that were identified at the 120-hour
13 period.

14
15 **Q. What do you do with the information from your predictive storm models?**

16 **A.** Once we have estimated the amount of resources required, the extent each region
17 within our territory will be impacted, and where the damage is expected to occur,
18 several subsequent processes begin in unison. First, our Resource Management
19 function contacts the Southeastern Electric Exchange (“SEE”) in an effort to secure
20 commitments from the participating companies to provide for our line and tree
21 manpower resource requirements. This is facilitated by an existing mutual assistance
22 agreement between all participating utilities. If that call is not successful in securing
23 the requisite commitments, then the Resource Management function contacts other

1 utilities and contracting firms beyond the SEE. For Hurricane Jeanne, for example,
2 we were able to secure a very limited amount of manpower commitments from the
3 SEE, which required us to contact firms throughout the 48 continental states. As a
4 result, we had to take extraordinary measures, including flying in resources from
5 California to help in that restoration effort. Both of these manpower sources provide
6 us with our non-native storm restoration crews. Non-native crews do not include PEF
7 employees or PEF's regular, retained contract crews (both of whom comprise our
8 native restoration crews).

9 The Resource Management function continues to contact companies until we
10 reach the required level of resource commitments predicted by our storm model.
11 Depending on the time and location of the storm's expected impact, a decision is
12 made concerning when committed crews are activated, paid to be mobilized, and sent
13 to an off-site resource. To expedite our restoration efforts, we want to mobilize
14 resources prior to a hurricane impacting our service territory whenever possible. This
15 has allowed us to have non-native crews mobilized from mustering sites to the
16 restoration areas within 6 hours after the storm passes. To do this, we mobilize crews
17 to system mustering sites located along Interstates 75, 4 & 95. The sites ultimately
18 used depend upon the path of the storm, as we are extremely concerned about the
19 safety of all resources involved in our restoration efforts. The number of crews
20 mobilized, and where they are mustered, greatly depends on the accuracy of the
21 forecast. A shift in resources like the one required when Hurricane Charley abruptly
22 changed course can significantly impact our plans and result in higher mobilization
23 costs.

1 Concurrent with acquiring resource commitments or the mobilization of
2 resources, our Staging & Logistics function begins to establish mustering sites and
3 regional staging areas and secures anticipated lodging needs. The use of mustering
4 sites allows us to orient non-native crews to our safety policies, our technical
5 specifications, and to prepare them for reassignment to a staging area. At these sites
6 we have truck parking, refueling, meals, and lodging. These site resources must be
7 put in place prior to the arrival of the first mobilized crew resource, which means that
8 the Staging & Logistics teams are making arrangements to provide these
9 accommodations based upon the predictive model.

10 The regional staging sites are also being established during this same time
11 frame. Based upon the predictive model and its forecast of damage and personnel
12 required for that region, the Operational Management team, the System Storm team
13 and the Staging & Logistics team identify the highest priority staging sites. Once
14 identified, the establishment of that site begins, and the anticipated number of rooms
15 for our lodging needs are secured. To establish both types of sites (mustering &
16 staging), it is imperative that we forecast the number of rooms needed and secure
17 those rooms expeditiously. The productivity of the storm restoration personnel can
18 be greatly impacted if we do not have lodging facilities within a short distance of the
19 two types of sites. The distribution storm response team performs these logistics and
20 staging functions for Transmission as well to reduce storm administrative costs and
21 share resources and staging areas where possible.

22
23

1 **Q. What other planning activities are undertaken prior to the arrival of the storm?**

2 **A.** As I mentioned above, it is imperative that we repeatedly communicate to our entire
3 customer base to ensure that they understand the status of our hurricane restoration
4 preparations. We communicate through several media (print, radio, and television) to
5 reach as many customers as possible to ensure that they have information about our
6 restoration response. For example, we repeatedly alert them to the potential dangers
7 of hurricanes, the impact of the storms on our facilities, the need to contact us and
8 report their outage, and the safety precautions they need to take such as the use of
9 generators.

10 In addition, we communicate extensively with our local and state EOCs. PEF
11 has EOC representatives participate in a majority of the major storm pre-landfall
12 briefings held by the local EOCs. Priority shelters are the primary pre-landfall
13 discussion issues and they are identified the day before landfall is expected. The
14 shelters, along with other local critical functions, are also prioritized in these
15 briefings.

16

17 **Q. What do you do as the storm strikes PEF's service territory?**

18 **A.** When the storm force winds commence in PEF's service territory, the distribution
19 storm center is in constant communication with the Energy Control Center ("ECC")
20 and the transmission storm center. The ECC gives both storm centers a blow-by-
21 blow description of what transmission lines and substations are dropping out of
22 service as the storm passes, giving us our first real-time assessment of the location of
23 the storm damage. This information flow continues throughout the storm, through

1 daily conference calls, and ECC and the distribution and transmission storm centers
2 jointly establish restoration priorities and coordinate the distribution and transmission
3 restoration efforts. Additionally, as soon as the storm winds drop below 35 miles per
4 hour, the distribution storm center begins to send out its damage assessment teams to
5 get a better understanding of the damage to the distribution system.

6
7 **V. IMPLEMENTATION OF THE STORM PLAN: OUTAGE RESTORATION**

8 **Q. What is the first thing you do after the storm passes?**

9 **A.** Our initial response has three main components: (1) Governmental and EOC support
10 and response; (2) feeder isolation and restoration efforts; and (3) statistical damage
11 assessment. These three components of our storm restoration efforts are the highest
12 priority to enable the local and state governments to respond to the storm's impact
13 and do their jobs, to restore the highest priority customers first, and to estimate the
14 amount of storm damage actually incurred by our distribution system. As a result of
15 storm damage to our facilities, local government personnel may encounter situations,
16 or they are contacted about situations that require an immediate response from our
17 line personnel. We assign representatives to each region to communicate with local
18 governmental officials and agencies and to man the EOCs. PEF EOC representatives
19 are assigned several line personnel to use as needed for emergency restoration efforts.

20 As the local governments and EOCs encounter issues that require our
21 immediate attention, we can promptly respond. These issues may involve, for
22 example, a downed power line with police personnel standing by at the site. By
23 having our personnel assigned to the EOC we can facilitate communication with the

1 various governmental agencies, such as fire departments also represented at the
2 EOCs, to quickly respond to the site, take care of the downed line, and allow the
3 government agency staff to pursue other critical assignments.

4 The Isolate and Restore process is a method by which we restore service and
5 catalogue storm damage for further repair. This process is intended to quickly restore
6 the feeder backbone through the operation of switches only, inventory sections of the
7 feeder that we are not able to immediately restore, and identify what devices off the
8 feeder are not in service. We begin planning for this Isolate and Restore effort prior
9 to the storm season when each of the local management teams prioritize the order of
10 restoration for each of the feeders within their jurisdiction. They prioritize the feeders
11 using three criteria to determine the critical feeders that must be first restored.

12 Priority one feeders have facilities such as water treatment plants, nuclear sirens,
13 hospitals, and emergency shelters connected to them. Priority two feeders are
14 connected to food distribution centers, law enforcement, fire/rescue stations, EOCs,
15 and other services that are crucial to the health, safety, and welfare of the general
16 public. Priority three feeders are all other feeders.

17 After the storm passes, PEF employees are assigned the highest priority
18 feeders that are out of service. We assign two line personnel per feeder and they are
19 responsible for patrolling from the substation to the end of the feeder. Upon
20 completing this patrol, we restore as much of the feeder backbone as possible, we
21 inventory the interrupted devices and they are used to update our outage numbers, and
22 we catalogue any feeder work that can be assigned to supplemental forces.

Concurrent with these two activities we assess five percent (5%) of our total facilities to validate the damage and associated resources that were predicted by the model and to provide the operations management more information for determining the best restoration methodology. As part of our pre-storm season preparation, we identify segments of feeders and their associated branch lines in each area served by an operations center that are representative of the overall network of feeders and branch lines for the local area. These representative distribution line segments are assigned to damage assessment teams, who are responsible for a pole-by-pole survey of those representative segments, to inventory the extent of damage incurred and return that damage information to be entered in a database. Based upon the storm damage found in this representative sample, we extrapolate the amount of storm damage for the rest of the local distribution network and aggregate all local extrapolations to get a system-wide storm damage estimate. These estimates are used at the system level to validate resource needs and to aid in resource mobilization.

16 **Q. What do you do next to restore power to customers?**

17 **A.** At this juncture of our restoration efforts, we are beginning to mobilize outside
18 resources to the local operating areas to include them in the storm restoration plan.
19 To efficiently use this first wave of manpower resources, we assign them to the storm
20 damage that was identified through our feeder Isolate and Restore process. This
21 allows us to assign them to the highest priority work on the most critical components
22 of our distribution infrastructure.

1 Prior to the arrival of the next wave of manpower resources and following the
2 completion of the statistical damage assessment, we begin a detailed pole-by-pole
3 assessment of all feeders that require it. Based upon the information collected from
4 the statistical assessment, any aerial storm damage assessments using helicopters,
5 information reported to our outage management system, and the knowledge of local
6 management, the management team has the information it needs to determine what
7 feeders require the detailed damage assessment. When the detailed assessment of a
8 selected feeder is complete, the results of that effort are entered into a database and an
9 associated work package is prepared for subsequent assignment to line or tree crew
10 resources.

11 This work package allows us to effectively communicate the scope of the
12 work to be done and further assists us in managing productivity expectations of our
13 line and tree crew resources. Additionally, the work package information assists local
14 management in allocating resources and determining estimated time of restoration
15 (ETRs). The ETR is based upon county or major areas within counties for
16 communication to the customer and to the state and local governments.

17
18 **Q. Do the Company's ETRs ever change during the restoration?**

19 **A.** Yes, they do. We are continuously updating our ETRs during the restoration to keep
20 up with the information we are collecting and evaluating on the extent and severity of
21 the storm damage, the critical and priority restoration needs from ECC, state and local
22 governments and EOCs, and the availability of resources. We will shift line and tree
23 crews, equipment, and material when needed to address new priorities or to increase

1 productivity. We are constantly striving during the restoration to improve our ETRs
2 and meet or exceed our own ETR goals.

3
4 **Q. How do you wind down your restoration process?**

5 **A.** As we near the completion of storm restoration work within any part of our service
6 territory we are beginning our demobilization efforts. We believe it is imperative that
7 we use the most productive and cost effective resources during our restoration efforts.
8 As a part of our demobilization efforts then, we survey local management to get their
9 assessment on the productivity of the non-native line and tree personnel. Combining
10 this information with the daily cost of the personnel, we start determining which
11 crews should be released first. Obviously there are operational considerations that
12 must be considered, but whenever prudent we demobilize resources based upon those
13 considerations.

14
15 **VI. IMPLEMENTATION OF THE STORM PLAN: SYSTEM RESTORATION**

16 **Q. What about after restoration of customers is complete. Is there anything else
17 that must be done?**

18 **A.** Yes, the final phase of our hurricane response is the restoration of the system to its
19 pre- hurricane status. When we are in our storm outage restoration phase, we intend to
20 perform the minimum amount of work necessary to restore the fundamental operating
21 characteristics of our distribution infrastructure. For example, during the storm
22 outage restoration phase, we may splint broken poles or cross arms, we do not restore

streetlights, capacitor banks and reclosers are returned to service only if immediately required, and animal mitigation hardware is not installed pursuant to standards.

To return the distribution system to its previous state before the hurricane, however, we conduct electrical sweeps of the feeders and identify the issues that require mitigation. This sweep process is normally begun prior to completion of the storm outage restoration phase. Once this work is identified and compiled, we integrate it into our overall work plan for our post-restoration storm work. We anticipate completion of the remaining storm-related work identified in our sweeps by 2nd quarter 2005.

An additional system restoration effort that we conduct is a detailed sweep of our feeders to identify any storm damage to trees that was not mitigated during the storm restoration phase. This assessment is what we refer to as a “tree sweep.” We assign a lead and associated tree personnel to assess a feeder and its associated branch lines. They are responsible for identifying only trees or branches damaged by the storm and immediately mitigating any such damage.

VII. EVALUATING AND IMPROVING THE STORM PLAN

Q. How do you measure the effectiveness of your storm planning and restoration process?

A. Let’s start with how we assess our restoration effectiveness. One of the main measures that we use is the cumulative percentage of customers restored versus our projection of where we should be at the end of each day. Moving backward from our final ETR goals, we set milestones that must be achieved each day in order for us to

1 achieve our overall goal. We generate these milestones down to the operations center
2 level based on the amount of storm damage on our system, the level of resources that
3 we have at our disposal, and our own restoration history. This analysis tells us
4 whether we are being as effective as we need to be and, if not, helps to highlight or
5 correct any issues that may be impacting our performance. As an example, the ETR's
6 for Hurricane Frances is included as Exhibit __ (DM-2) to my testimony.

7 Planning effectiveness is more difficult to measure. In one respect, we know
8 that we do an effective job of forecasting since the actual storm damage and resource
9 requirements closely matched our predictions in all cases. Much more important than
10 this, however, effective planning really comes down to ensuring we have the
11 processes in place that give us maximum flexibility. Due to the nature of these
12 storms, we will never be able to predict the location and timing of storms precisely. It
13 is more important that our planning process ensures we have the flexibility to adapt to
14 inevitable changes in the location, timing, and intensity of storms as they arise. In our
15 judgment, our planning process did in fact provide us with the needed flexibility to
16 cope effectively even with this extraordinary hurricane season.

17
18 **Q. Have you made any improvements to your storm planning and restoration**
19 **process?**

20 **A.** Yes, we incorporate lessons learned every time we implement our storm plan. In fact,
21 this process of continuous improvement is itself a critical part of our comprehensive
22 storm plan. Indeed, our storm plan was adopted as best practices for the Company as
23 a result of the experience of our sister company in the Carolinas with recent

1 hurricanes and ice storms. And, given the number of times we put this plan to the test
2 this summer, it is no surprise that we have made several improvements to the plan as
3 a result of our own experience. As a general rule, I believe we gained efficiency and
4 effectiveness in several areas of our storm operations as we progressed from storm to
5 storm.

6 I would divide our lessons learned into two categories. First, we made several
7 over-night changes based on what we were seeing each day. One example is the
8 creation of a grading sheet for contract crews that allowed us to track and compare
9 their cost and effectiveness. This tool proved useful in determining which resources
10 to release or hold and which resources to contract for subsequent storms. On the
11 other hand, some improvements were incorporated based on post-storm analysis and
12 implemented in time for the next storm. For example, we found opportunities to
13 improve the plan by increasing our efforts to communicate our daily goals within the
14 company with each passing storm. We began a process of setting daily goals in areas
15 such as safety, resource availability, and operations. These daily goals and a follow-
16 up on the prior day's goals were communicated every morning during our restoration
17 efforts. An example of these daily goals would be shown on Exhibit ____ (DM-3) to
18 my testimony.

19 Likewise, we took advantage of an opportunity to increase our presence and
20 therefore improve our communications with local governments and county
21 emergency operations centers. By posting a company representative in each county
22 EOC, we were able to improve the flow of communication, to improve our response

1 to specific issues that were monopolizing city and county resources, and to allow the
2 cities and counties to be more efficient in their storm response activities.

4 VIII. THE 2004 HURRICANE SEASON

5 **Q. Can you please describe your planning and response to Hurricane Charley and**
6 **its impact on your system?**

7 **A.** Hurricane Charley posed several challenges to our planning and restoration efforts.
8 The storm was projected to make landfall in the vicinity of Tampa Bay before it
9 suddenly made a turn to the east and hit Punta Gorda in Charlotte County on August
10 13, 2004 with winds of 145 miles per hour. After gearing up personnel, materials,
11 staging areas, rooms and related resources in the Tampa Bay area, we were forced to
12 quickly adapt to a more easterly storm path. These required but unpredictable
13 changes in our storm preparation and response efforts, of course, had an impact on
14 our storm costs.

15 Hurricane Charley proceeded on a north to northeast path across Florida,
16 traveling through much of PEF's service territory, including the densely populated
17 areas around Orlando, before leaving the state. 502,000 customers were left without
18 electric service at the peak of Hurricane Charley's impact on PEF's service territory.
19 This represents 32.7% of PEF's total customers. As a result of Hurricane Charley,
20 PEF experienced extensive damage to its distribution system and we frequently found
21 ourselves in a position to rebuild rather than repair. PEF had to replace 667 miles of
22 primary and secondary wire, replace 3,820 poles, and replace 1,880 overhead and
23 underground transformers. During Hurricane Charley, PEF mobilized 3,623 line and

1 service personnel and 1,499 tree personnel in addition to its own personnel to ensure
2 repairs were completed as efficiently as possible. A wind field map of Hurricane
3 Charley's impact on PEF's service territory is included as Exhibit __ (DM-4) to my
4 testimony.

5 Responding to a storm that left a significant impact on three out of our four
6 regions stretched our internal resources to an extent never before seen during
7 previous, more geographically compact storms. All customers that were able to
8 receive power, however, were restored nine days after PEF started restoration work,
9 even though we dealt with additional storm activity throughout our restoration effort.
10 The restoration costs directly attributable to distribution as a result of Hurricane
11 Charley are \$108 million.

12
13 **Q. Can you please describe your planning and response to Hurricane Frances and**
14 **its impact on your system?**

15 **A.** Hurricane Frances presented a different set of challenges than Hurricane Charley.
16 The storm made landfall between Fort Pierce and West Palm Beach on September 4,
17 2004 with sustained winds of 105 miles per hour. Over the next several days,
18 Hurricane Frances crossed over Florida and entered the Gulf of Mexico north of
19 Tampa in PEF's service territory. Strong winds with gusts near 100 miles per hour
20 affected PEF's service territory for almost a full day. Throughout this time, we were
21 forced to hold arriving crews in mustering sites until conditions were safe to begin
22 restoration. By the time the storm left our territory, it had dumped 6 to 12 inches of

1 rain with some areas receiving considerably more rain. In several cases, flooding
2 increased the degree of difficulty for our restoration crews.

3 The impact of Hurricane Frances was widespread, reaching 30 of the 35
4 counties that PEF serves. 832,898 PEF customers lost power from Hurricane Frances
5 during the course of the storm. This represents 54.4% of PEF's total number of
6 customers. A wind field map of Hurricane Frances' impact on PEF's service territory
7 is included as Exhibit __ (DM-5) to my testimony.

8 We used nearly 500 miles of primary and secondary wire, replaced 2,800
9 distribution poles, and replaced 1,560 overhead and underground transformers. Even
10 more widespread than Hurricane Charley, Frances forced us to reach deep within our
11 company to field storm support personnel. Beyond company personnel, PEF
12 mobilized 2,819 system line and service personnel and 1,782 tree personnel to deal
13 with the damage caused by Hurricane Frances. We were able to restore power to all
14 customers who could receive it six days after commencing storm restoration work.

15 The restoration costs directly attributable to distribution as a result of Hurricane
16 Frances are \$95.8 million.

17
18 **Q. Can you please describe your planning and response to Hurricane Ivan and its**
19 **impact on your system?**

20 **A.** Hurricane Ivan was forecasted to make landfall in the Tampa Bay region. In the end,
21 however, the storm went ashore near Gulf Shores, Alabama on September 16, 2004
22 with sustained winds of 130 miles per hour. PEF customers in Bay, Franklin, Gulf,
23 Jefferson, and Wakulla counties in PEF's service territory did, however, lose power

1 from Hurricane Ivan. At its peak, 8,891 PEF customers were without power, or 0.6%
2 of PEF's total customers. A wind field map of Hurricane Ivan's impact on PEF's
3 service territory is included as Exhibit __ (DM-6) to my testimony.

4 Although this storm did minimal damage to our system, it did force us to
5 retain contract crews, lodging, and other resources at the ready until the risk of impact
6 to our service territory diminished. Beyond PEF's own personnel, we mobilized 300
7 line and service personnel and 100 tree personnel to ensure repairs were completed as
8 efficiently as possible. All customers who were able to receive power had their
9 power restored in two days. The restoration costs directly attributable to distribution
10 as a result of Hurricane Ivan are \$3.7 million.

11
12 **Q. Can you please describe your planning and response to Hurricane Jeanne and**
13 **its impact on your system?**

14 **A.** In many respects, Hurricane Jeanne was similar to Hurricane Frances although
15 quicker moving. Hurricane Jeanne made landfall near Stuart, Florida on September
16 25, 2004 with sustained winds of 120 miles per hour. It moved northwest across
17 Florida and through PEF's service territory and proceeded north out of Florida.
18 Again, the impact on PEF's service territory was widespread impacting customers in
19 33 out of the 35 counties that PEF serves. At the hurricane's peak impact on PEF's
20 service territory, 722,012 customers lost power, or 47% of PEF's total number of
21 customers. As a result of Jeanne, PEF installed 222 miles of primary and secondary
22 wire, replaced 100 poles, and installed 570 transformers. A wind field map of

1 Hurricane Jeanne's impact on PEF's service territory is included as Exhibit __ (DM-
2 7) to my testimony.

3 The fact that Hurricane Jeanne so closely followed Hurricane Ivan presented
4 unique challenges for PEF. We had difficulty securing the level of resources that we
5 would have liked. First, we were unable to rely on PEC personnel as they were
6 grappling with Hurricane Ivan in their own service territory and unable to lend
7 assistance in Florida. Second, utilities impacted by Ivan were continuing storm
8 restoration and were reluctant to release resources for Jeanne. By bringing in crews
9 and equipment from as far away as the West Coast, we were able to mobilize 2,622
10 system line and service personnel and 1,065 tree personnel. Power was restored for
11 all customers who could receive power five days after PEF commenced storm
12 restoration work, beating our original goal by 2 days. The restoration costs directly
13 attributable to Hurricane Jeanne are \$64.3 million.

14 15 IX. CONCLUSION

16 **Q. Do you have an assessment of the Company's implementation of its Storm Plan**
17 **during the 2004 hurricane season?**

18 **A.** I believe the Company faced a monumental challenge as a result of the four back-to-
19 back hurricanes and the storm plan proved to be an effective and efficient tool to
20 achieve our goal of restoring customer service as safely and expeditiously as possible.
21 Never before have we faced four major hurricanes in a single year, let alone a span of
22 less than six weeks. The sequence of the storms, their intensity, storm path, and other
23 characteristics presented unique challenges to the Company. The Company further

1 experienced extensive and widespread storm damage to its distribution system as a
2 result of the four hurricanes. Illustrative of this are the pictures of distribution system
3 damage included as Composite Exhibit ___ (DM-8) to my testimony. Through it all,
4 however, we found the storm plan processes worked. To be sure, we learned more
5 about storm preparation and restoration as a result of the storms and quickly
6 incorporated those lessons into our storm plan, but the storm plan proved to be
7 invaluable to us in preparing for, responding to, and recovering from the storms. We
8 proved the implementation of the storm plan works to meet our obligation to
9 promptly restore electric service following each of these storms.

10

11 **Q. Does this conclude your testimony?**

12 **A. Yes.**

13

1 BY MR. WALLS:

2 Q Mr. McDonald, do you have a summary of your prefiled
3 testimony?

4 A Yes, I do.

5 Q And will you please summarize your testimony for the
6 Commission?

7 A Yes, I will. My name is David McDonald, and I am
8 employed by Progress Energy Florida as the Director of
9 Distribution Asset Management in PEF's energy delivery business
10 operations. I am also the storm coordinator for the company's
11 distribution system.

12 As the storm coordinator, I am responsible for
13 overseeing implementation of our storm plan. The goal of our
14 storm plan is to restore electric service to the customers as
15 quickly and safely as possible and then to restore our
16 distribution system to its pre-storm condition following the
17 hurricane. To achieve this goal, our storm plan provides for
18 the control and direction of the overall mobilization, **staging**
19 of crews, logistic support, damage assessment and restoration
20 process.

21 We implement our plan well before a hurricane strikes
22 our service area. **We use computer modeling tools to track the**
23 **storm path, its intensity, and expected damage in conjunction**
24 **with outside weather services to identify resource needs and to**
25 **obtain resource commitments before the hurricanes hit. We use**

1 this information to plan and arrange for logistical needs,
2 materials, equipment, and crews based on priorities of
3 restoring service to our most critical and most customers as
4 soon as possible. We update this information regularly at the
5 96, 72, 48, and 24-hour marks prior to the impact of each
6 hurricane.

7 We also communicate constantly with the Energy
8 Control Center and the transmission storm center to obtain
9 realtime information on outages caused by the storm and to
10 coordinate our restoration efforts. As soon as the hurricane
11 winds die down to less than 35 miles per hour, we have our
12 people out completing damage assessment, prioritizing the work,
13 and beginning the restoration work.

14 We implemented our storm plan four times during the
15 2004 hurricane season as Hurricanes Charley, Frances, Ivan, and
16 Jeanne struck our service territory one right after another.
17 The damage to our distribution lines and equipment from these
18 hurricanes was severe and widespread requiring us to mobilize
19 and manage thousands of line, tree, and other personnel for the
20 restoration work and thousands of items of equipment and
21 material for the restoration effort.

22 The numbers speaks for themselves. For Hurricane
23 Charley, we replaced 667 miles of primary and secondary wire.
24 We replaced 3,820 poles; replaced 1,880 overhead and
25 underground transformers among thousands of smaller items, and

1 we mobilized 3,623 line and service personnel, and 1,499 tree
2 personnel in addition to our own personnel.

3 For Hurricane Frances we used nearly 500 miles of
4 primary and secondary wire, replaced 2,800 distribution poles,
5 and replaced 1,560 overhead and underground transformers, along
6 with thousand of smaller items, and we mobilized in addition to
7 our own personnel 2,819 system, line, and service personnel,
8 and 1,782 tree personnel.

9 For Hurricane Ivan we mobilized 300 line and service
10 personnel and 100 tree personnel in addition to our own
11 personnel to restore electric service.

12 And, finally, for Hurricane Jeanne we installed 222
13 miles of primary and secondary wire, replaced 100 poles,
14 installed 570 transformers, and we added to our personnel 2,622
15 system, line, and service personnel and 1,065 tree personnel.

16 Although we had widespread outages from the
17 hurricanes leaving from one-third to one-half of our customers
18 without power at the peak of three of the hurricanes, we were
19 able to restore power to customers in record time, often
20 beating our own internal restoration goals. Our work does not
21 end when the power goes back on, however, because we still
22 have to go back and repair damage caused by the hurricanes that
23 was by-passed in our effort to restore power as quickly as
24 possible. So we conduct sweeps of our distribution lines
25 following each hurricane to identify storm damage that did not

1 need to be addressed in order to restore service, but must be
2 addressed to put our distribution system back in the condition
3 it was prior to the hurricanes. We expect we will complete
4 this remaining work by the second quarter of this year.

5 We continue to improve our storm plan following the
6 2004 hurricane season by incorporating lessons learned and to
7 update the plan from hurricane to hurricane. We believe that even
8 though Hurricanes Charley, Frances, Ivan, and Jeanne caused
9 extensive damage to our distribution system and left record
10 numbers of customers without service at the peaks of the
11 hurricanes, our storm plan proved to be an effective and
12 efficient tool to restore customer service as quickly as
13 possible during this unprecedented hurricane season. We are
14 very proud of the response of our employees in the distribution
15 area for their hard work in making our storm plan work during
16 and following these four hurricanes.

17 MR. WALLS: At this time we would tender Mr. McDonald
18 for cross.

19 CHAIRMAN BAEZ: And as I had stated earlier, I wanted
20 to break for lunch around 1:30, and I think this is probably as
21 close as we are going to get on the button. So we are going to
22 break for 45 minutes, and we will reconvene and start with
23 cross-examination at 2:15. We are in recess.

24 (Lunch recess.)

25 CHAIRMAN BAEZ: Bring the hearing back to order. And

1 we are just about to start, the witness had been tendered for
2 cross, Mr. Walls. Mr. McDonald, thank you.

3 Ms. Christensen.

4 CROSS EXAMINATION

5 BY MS. CHRISTENSEN:

6 Q Good afternoon, Mr. McDonald. There I can see you.
7 Mr. McDonald, as director of distribution assets management in
8 Progress Energy's delivery of business operations, part of your
9 job requirement is coordination of storm recovery for the
10 distribution portion, is that correct?

11 A I'm sorry, I was distracted. Could you repeat that.

12 Q If I can.

13 A The last part.

14 Q Well, let me shorten this up. Mr. McDonald, is part
15 of your job requirement to coordinate storm recovery for the
16 distribution center for distribution?

17 A To recover the facilities?

18 Q No. Is it part of your job requirement to coordinate
19 the storm recovery for distribution?

20 A Yes, ma'am.

21 Q Am I correct in understanding that the distribution
22 storm plan is used mainly for hurricanes?

23 A There is three levels, or four levels within the
24 storm plan, so it is applicable for all levels of storm
25 response.

1 Q Okay. When you implement the storm plan prior to the
2 hurricane, the plan consists of different phases, am I correct?

3 A Different --

4 Q Phases?

5 A Yes, that is correct.

6 Q And the phases you identified in your testimony are
7 pre-storm preparation, outages restoration, and distribution
8 systems restoration, are those correct?

9 A Yes, it is.

10 Q In your testimony you do not address any
11 pre-hurricane season planning, is that correct?

12 A No, that is not correct. We mention the storm
13 preparation, the training. Are you saying in the testimony?

14 Q Well, as part of your phases that you discuss, you
15 don't have a phase for pre-hurricane or preseason planning?

16 A Not in those three that we discussed, no.

17 Q Am I correct that the cost associated with any
18 pre-hurricane season activities have not been charged to the
19 storm accounts?

20 A That is correct.

21 Q When you initiate your pre-storm activities, am I
22 correct in assuming that is when you start charging costs to
23 the storm accounts?

24 A The exact time frame is determined upon when a storm
25 account number is issued, and it varies with each and every

1 storm.

2 Q Is it usually issued in the pre-storm phase?

3 A At times it is issued both pre-storm and during the
4 storm, yes.

5 Q If you know, once you started charging costs to the
6 storm accounts, am I correct the portions of your salary and
7 your staff's salary were charged to the storm account if they
8 were working on the hurricanes?

9 A If they were working directly on hurricane work, that
10 is correct.

11 Q Am I correct that immediately after the hurricanes
12 you had outside crews and Progress crews working 16 hours per
13 day?

14 A Yes.

15 Q And were these crews, outside crews and Progress
16 crews initially working seven days per week?

17 A Yes, that is correct.

18 Q How many days and/or months after the hurricanes did
19 your workers revert back to a ten hour day, six days a week?

20 A I don't know that.

21 Q Do you know when your department reverted back to
22 eight hour days, five days a week?

23 A It varies with each individual for that department
24 and it would depend upon the storm role. There may be
25 individuals that are more involved in the storm restoration

1 post or the distribution restoration aspect of it than others,
2 so there may be others that return to the eight hour day versus
3 other individuals that are working the ten hour days.

4 Q Well, do you know what percentage of your work force
5 is working on ten hour days?

6 A No, I do not.

7 Q Do you know whether or not a majority of your crews
8 are back on normal work days with normal percentage of
9 overtime?

10 A I would not know that, no.

11 Q Am I correct that your normal budgets include an
12 assumption that you will have some percentage of overtime?

13 A That is correct for our bargaining unit and nonexempt
14 personal.

15 Q For your bargaining unit and nonexempt personnel?

16 A And certain supervisory positions in the exempt, that
17 is correct.

18 Q And that percentage of overtime includes overtime
19 hours for outside crews that Progress normally contracts with
20 as part of their normal operations, am I correct with that?

21 A Could you restate the question?

22 Q Certainly. The percentage of overtime that is
23 included in your budget, that includes a component of overtime
24 for outside crews that Progress normally would contract with
25 during the normal course of its operations?

1 A No, it does not.

2 Q Outside crew contractors are a separate overtime
3 charge?

4 A There is not -- the actual contractor charge is a
5 different bucket altogether.

6 Q Okay. Does that outside crew contractor item have
7 overtime calculated in there, as well?

8 A No, it does not.

9 Q Is the percentage of your normally budgeted overtime
10 somewhere in the range of 15 to 20 percent?

11 A I don't know that number.

12 Q Let me ask you, if you know, what percentage of
13 overtime did you run in distribution for the bargaining units
14 in January?

15 A I do not know that.

16 Q Do you know for February?

17 A No, I do not.

18 Q At the end of your testimony you include some photos
19 of downed poles, is that correct?

20 A Yes.

21 Q And Mr. Lyash at the service hearing showed some
22 pictures of some wooden poles that were blown down to the
23 ground. Are you familiar with these pictures?

24 A Yes, I am.

25 Q Am I correct -- and these are Exhibit 8 to your

1 testimony, am I correct in that also?

2 A These are what, I'm sorry?

3 Q That is Exhibit 8 of your direct testimony?

4 A Yes.

5 Q Am I correct that the greatest stress on a wooden
6 pole in relation to the ground is approximately a third of the
7 way up the pole?

8 A I do not know that.

9 MS. CHRISTENSEN: I have no further questions.

10 CHAIRMAN BAEZ: Mr. McWhirter.

11 MR. McWHIRTER: Yes, sir.

12 CROSS EXAMINATION

13 BY MR. McWHIRTER:

14 Q On Page 13 you talk about planning activities
15 undertaken prior to arrival of the storm, and apparently
16 through the communications department you repeatedly alert
17 various people of the hurricanes coming and the impact the
18 storms might have on your facilities. Do you know how the cost
19 of the people that are doing that were booked in 2004, whether
20 the cost of your regular employees were booked to O&M or to
21 storm damage?

22 A No, I don't know.

23 Q You are not responsible for most of the accounting
24 stuff?

25 A No, sir.

1 Q Okay. I'm going to skip over those kind of
2 questions, then. On Page 22 you begin talking about the
3 hurricane season, and let's first talk about Hurricane Charley.
4 That was one of the biggest ones. You had to replace 667 miles
5 of primary and secondary wire, and 3,820 poles, and 1,880
6 overhead and underground transformers. Where did you get that
7 wire and the poles and the transformers?

8 A From material information.

9 Q Does that mean that -- is that a department of your
10 company?

11 A There is a material -- there is a material section of
12 our company, that is correct.

13 Q And do you know whether that inventory of materials
14 was already in stock or something that you purchased for the
15 storm?

16 A As a storm is coming into our service territory, as
17 part of our pre-storm planning we check our inventory to ensure
18 based upon the magnitude of the storm, which in turn allows us
19 to gauge the potential impact and damage associated with that.
20 Armed with that information we take a quick inventory of what
21 we have in stock or what we have in our warehouses and
22 determine whether we need to order more. And in the case of a
23 Charley, we would contact our vendors to secure their
24 capabilities to provide us more material.

25 Q Well, you have got 1,880 overhead and underground

1 transformers. Are those easy to come by on the open market?
2 Do your suppliers have those on hand, or do most of these come
3 from your internal?

4 A Well, there is the combination of what we had in
5 stock, what the manufacturer had in stock, and then what they
6 could secure from their various sources. As an example, a lot
7 of utility companies have consignment as part of their material
8 stockpile, so the vendor would be able to have access or be
9 able to work with other utilities to be able to get access to
10 those transformers.

11 Q From your position with the company you don't know
12 what portion of those transformers came from the material you
13 already had on hand?

14 A No, sir.

15 Q And are you responsible with purchasing or does some
16 other department handle that?

17 A There is another department responsible for that.

18 Q And I don't think there is any witness that will be
19 able to tell us about this, maybe Mr. Portuondo, but one of the
20 problems that the state faced was gouging on prices. Do you
21 know whether your company faced any of that?

22 A I wouldn't know that, sir.

23 Q Now, you indicate that the restoration costs
24 attributable to Hurricane Charley on Page 23 were \$108 million.
25 Where did you get that number?

1 A That was provided through our accounting section to
2 ne.

3 CHAIRMAN BAEZ: Mr. McWhirter, can you and the
4 witness both get a little closer to your microphones. I'm
5 having trouble hearing.

6 MR. McWHIRTER: I wasn't on, I'm sorry.

7 BY MR. McWHIRTER:

8 Q On Page 24 you say that Hurricane Frances cost
9 \$95.8 million, but Mr. Portuondo in his Exhibit JP Number 1,
10 which has now been numbered Exhibit 24, he says the cost was
11 \$118.6 million. Do you know whether his \$95 million is correct
12 or your 118 is correct?

13 A I would delegate that to Mr. Portuondo.

14 Q Whatever you got you relied on him?

15 A Yes, sir.

16 Q And it looks like about 87 percent of the total storm
17 costs were as a result of activities within the distribution
18 system. Is that a fair evaluation as far as you know?

19 A I don't know that percentage.

20 MR. McWHIRTER: That's all the questions I have.

21 CHAIRMAN BAEZ: Mr. Twomey.

22 MR. TWOMEY: Yes, sir, just briefly.

23 CROSS EXAMINATION

24 BY MR. TWOMEY:

25 Q Mr. McDonald, you say in your summary of your

1 testimony at Page 3 that, as I understand it, amongst the
2 things the company wants to do is identify problems you had
3 during the storm and see how you can not only fix the system,
4 but fix it on a going-forward basis, right? Identify problems
5 that you may have that you can fix in the future and avoid
6 further problems?

7 A Could you help me to understand which part you are
8 referring to, please.

9 Q At Line 3, Page 3, it ends with the company's attempt
10 to identify and correct further storm damage that was not
11 addressed during the restoration process. You go on at 6, "I
12 will include the company's goals and priorities as it prepares
13 for response to and recovers from the storm impact on its
14 distribution system." And I've got a question with respect to
15 that, and that is, is your distribution system rated for
16 certain wind levels?

17 A Our distribution system is rated per the NESC at 60
18 miles an hour. That is what the rating for that particular
19 system is, yes.

20 Q Do I assume correctly that it was built to that
21 specification?

22 A That is correct.

23 Q Now, if you know, did the system in the storms that
24 you experienced stand up to those winds?

25 A If you measure the type of response from our system

1 based upon the equipment that I am about to give you, then I
2 would say yes, it did. And the point being is based upon the
3 number of poles that fell and were replaced we lost
4 approximately 6,700 poles, and take into consideration some of
5 those poles could be multiple, could have failed multiple times
6 based upon the hurricanes we saw. But if you take it on just
7 face value that those were individual instances, that is less
8 than 7/10ths of a percent of our poles that failed. If you
9 look at our transformers, we had approximately 1 percent of our
10 transformers that we replaced as a result of four catastrophic
11 hurricanes. So, yes, I would say our system performed very
12 well.

13 Q Not to belabor this, but where the poles fell, you
14 would have expected them to fall by the virtue of the wind
15 experienced in that area, is that generally correct?

16 A Based upon the wind that you saw in that area, but
17 more importantly what caused the failure. You know, was it
18 caused by a tree falling into the particular facility. Was it
19 caused by aluminum shed that flies into the facilities, the
20 conductors, and then acts like a sail. Based upon the wind
21 speed, and that sail, it pulls it over. So there is a lot of
22 variables that go into whether a pole would fail or not.

23 MR. TWOMEY: I see. That's all I have. Thanks.

24 CHAIRMAN BAEZ: Staff.

25 CROSS EXAMINATION

1 BY MS. RODAN:

2 Q Please draw your attention to Page 21 of your
3 testimony, beginning at Line 6. Here you discuss a change in
4 the storm plan that established a grading sheet for contract
5 crews. Did you achieve any cost savings using the grading
6 sheet?

7 A We released contract crews as we completed our
8 restoration efforts. We released contract crews based upon the
9 quality and based upon the cost of those particular crews, so
10 we went by that prioritization when we released them. We
11 didn't have a quantification of that, but, yes, based upon that
12 logic, the answer would be yes.

13 Q Now, please direct your attention to staff's
14 consolidated exhibit, which has been marked and entered into
15 the record as Exhibit Number 6. On Bates stamped page Numbers
16 95 through 96 is Progress Energy's response to staff's fourth
17 set of interrogatories Number 38. Are you familiar with and
18 did you participate in the preparation of this response?

19 A Yes, I did.

20 Q In the response to Subsection A, the company
21 indicated that pole replacements that have already occurred due
22 to storm restoration activities would have occurred over the
23 next two years, is that correct?

24 A That is correct.

25 Q Does the company's response indicate that those

1 future activities which were to occur in 2005 and 2006 that no
2 longer need to occur are being fully adjusted out of the
3 company's request in this proceedings?

4 A No. What we are stating is that based upon the
5 priorities that we had established going into the storm we
6 would now take those funds and apply them towards the next
7 level on our prioritization list for pole maintenance.

8 Q Is the adjustment for only one year or does it cover
9 multiple years?

10 A It would cover multiple years.

11 Q Would you agree subject to check that the adjustment
12 is for 2005 through 2006?

13 A I'm sorry, ma'am, I didn't hear the first part of
14 your statement.

15 Q Would you agree subject to check that the adjustment
16 is for 2005 through 2006?

17 A I'm sorry, you are going to have to restate your
18 question. I really apologize.

19 Q Would you agree that the adjustment would cover 2005
20 and 2006?

21 A Yes, ma'am. I'm sorry.

22 Q Did the company replace lightning arrestors as part
23 of its hurricane restoration activities?

24 A Not during the normal restoration, but it is part of
25 the follow-up sweep effort, yes.

1 Q Is the replacement of lightning arrestors a normal
2 activity?

3 A A normal activities of what? Day-to-day normal
4 activity, normal activity of sweeps, I'm not sure of your
5 question.

6 Q Day-to-day normal activity?

7 A Yes, it is.

8 Q Under normal conditions, does the utility inspect its
9 system on a 100 percent basis every year?

10 A Utilizing our interfaces through various means, we
11 interface with our facilities on an annual basis, yes.

12 Q Is it possible that during post-hurricane sweeps the
13 company performed repairs that may not have been caused by the
14 hurricanes of 2004?

15 A During the hurricane sweeps we made it very clear to
16 the individuals that performed this sweep that they were to
17 identify work that was a result of the hurricanes, and once
18 that work was identified or once those issues were identified,
19 that work was to become part of the sweep mitigation.

20 Q Is it possible that the amount of tree trimming that
21 occurred during 2004 on a total basis was more than what the
22 utility would have otherwise accomplished?

23 A Your question assumes -- the response to that
24 question is there was more money spent trimming trees during
25 2004 than what normally would be spent. However, that money is

1 broken into two different categories. One is production
2 trimming and one is restoration trimming. Those are two
3 different types of trimming. So when it comes to production
4 trimming, we spent at the same levels we had previously.

5 Q Would it be reasonable to conclude that the
6 additional level of tree trimming during 2004 will put downward
7 pressure on near term future tree trimming activities?

8 A No. The type of trimming that was done during the
9 restoration efforts is spot trimming. It is identifying those
10 individual trees/limbs that are interacting with our facilities
11 and hindering our ability to restore service, or those that are
12 identified during the tree sweeps that as a result of the
13 hurricanes could in the near term impact our facilities. That
14 is not the production trimming that we do based upon the growth
15 patterns of the trees that occur in our right-of-ways. So
16 there are two different types of efforts. The expenditures in
17 one arena doesn't cause a change in the other arena.

18 MS. RODAN: Thank you. No further questions.

19 CHAIRMAN BAEZ: Commissioners, questions?

20 Redirect.

21 MR. WALLS: Just a couple of follow-up questions.

22 REDIRECT EXAMINATION

23 BY MR. WALLS:

24 Q Mr. McDonald, you were asked about the answer to the
25 interrogatory in staff's discovery regarding the pole

1 replacement, and is the gist of your answer that that money
2 will be used to replace poles elsewhere on your testimony?

3 A That is correct.

4 Q And can you explain why the pole replacement that
5 occurred during the hurricane restoration process didn't
6 displace your pole replacement program as part of your
7 maintenance?

8 A We have over 1.1 million poles. If you remember, I
9 said less than 7/10ths of a percent of our poles were impacted.
10 So we have 99.3 percent of the remaining population that we
11 will continue our maintenance programs on.

12 Q And is the work that occurred during the hurricanes,
13 the damage you saw, is that the type of work to correct that
14 damage that would displace your maintenance?

15 A No, it is not.

16 Q And can you explain why it wouldn't be?

17 A The type of work that was done during the restoration
18 period was purely to restore our facilities to the pre-storm
19 condition, both restoration and to the pre-storm operating
20 condition. The type of maintenance we would do would be
21 focused on the long-term optimization of life cycle, the
22 reduction of faults, or the mitigation of interruptions, one of
23 those three areas, which is not the area that we focused on
24 during the restoration efforts.

25 Q And why does the company have to go back in what you

1 call the sweeps work and do that work to put the system back
2 into pre-storm condition?

3 A We were focused on during the restoration arena, we
4 were focused on restoring service as quickly as possible to our
5 customers. We want to maintain a state of normalcy, return
6 them to a state of normalcy. In those efforts, we restore in a
7 fashion that doesn't return it to its original state
8 pre-hurricane, which is a state that allowed us to have a 25
9 percent reduction in our SAIDI performance. So we have
10 expectations from our customers that is non-hurricane related
11 that we have to return to. So at the conclusion of that
12 restoration of a hurricane, we need to return our facilities to
13 that pre-hurricane condition to provide that same level of
14 service we provided in the past or pre-hurricane.

15 MR. WALLS: No further questions.

16 CHAIRMAN BAEZ: Mr. Walls, I have Exhibits 9 through
17 16?

18 MR. WALLS: Yes. At this time we would move Mr.
19 McDonald's Exhibits 9 through 16 into evidence.

20 CHAIRMAN BAEZ: Without objection show them admitted
21 into the record.

22 (Exhibits 9 through 16 admitted into record.)

23 CHAIRMAN BAEZ: Thank you, Mr. McDonald.

24 THE WITNESS: Thank you.

25 MR. WALLS: At this time we would call Sarah Rogers.

1 SARAH S. ROGERS

2 was called as a witness on behalf of Progress Energy Florida,
3 and having been duly sworn, testified as follows:

4 DIRECT EXAMINATION

5 BY MR. WALLS:

6 Q Ms. Rogers, will you please introduce yourself to the
7 Commission and provide your address?

8 A Yes. My name is Sarah Rogers. I am the
9 Vice-President of Transmission for Progress Energy, and my
10 address is 100 Ease Davey Street, Raleigh, North Carolina
11 27601.

12 Q And who do you work for and what is your position?

13 A I work for Progress Energy Carolina, and I am the
14 vice-president over the transmission systems in the states of
15 North Carolina, South Carolina, and Florida.

16 Q Have you filed prefiled testimony and exhibits in
17 this case?

18 A I have.

19 Q And do you have any changes to make to your prefiled
20 testimony at this time?

21 A Yes, I do.

22 Q Can you tell us what those are?

23 A Yes. On Page 1, Line 3, I am actually currently
24 employed by Progress Energy Carolina as opposed to Progress
25 Energy Florida. And then on 4, my business address as stated

1 earlier is 100 East Davey Street, Raleigh, North Carolina. And
2 on Line 8, my title is now just Vice-President of Transmission.
3 You can strike the first Florida, and I am employed by Progress
4 Energy Carolina.

5 Q At the time you filed your prefiled testimony, was
6 that your position, though?

7 A That was my position at the time, that is correct.

8 Q Do you have any other changes to your testimony?

9 A I do not, no.

10 Q And if I asked you the same questions in your
11 prefiled testimony today, would you have the same answers that
12 are in your testimony?

13 A Yes, I would.

14 MR. WALLS: We request at this time that Ms. Rogers'
15 prefiled testimony be moved into evidence as if it was read.

16 CHAIRMAN BAEZ: Without objection show the direct
17 testimony of Sarah Rogers entered into the record as though
18 read.

19

20

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FPSC DOCKET NO. 041272-EI

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

DIRECT TESTIMONY OF SARAH ROGERS

I. INTRODUCTION AND QUALIFICATIONS

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

A. My name is Sarah S. Rogers, and I am employed by Progress Energy ^{Carolina} ~~Florida~~. My business address is ^{100 East Davery Street, Raleigh, North Carolina.} ~~3300 Exchange Place, Lake Mary, Florida.~~

Q. Please tell us your position and describe your duties and responsibilities in that position.

A. I am the Vice President of Transmission ^{Carolina} ~~Florida~~ for Progress Energy ~~Florida~~, Inc. ("PEF" or the "Company"). I am also the Transmission System Coordinator for the Company's transmission system in the event of a severe storm or other disaster. This position is equivalent to the Storm Director position for the Company's distribution system. As the Company's Transmission System Coordinator, I am responsible for the implementation of the Company's Transmission Department Storm Plan.

Q. Please summarize your educational background and employment experience.

A. I have a BSEE from San Diego State University and an MBA from Duke University. I have been employed by Progress Energy since March 19, 1984. I am a registered professional engineer in the states of Florida and North Carolina. The majority of my

1 career has been in Transmission in roles such as engineering, planning, and
2 maintenance. I was the Vice President of the Transmission Department in the
3 Carolinas for three years prior to becoming the Vice President of Transmission
4 Florida in December 2000. During my career in North Carolina, I led or participated
5 in the transmission restoration following the extensive storm damage from Hurricanes
6 Hugo, Fran, and Floyd.

8 II. PURPOSE AND SUMMARY OF TESTIMONY

9 **Q. Please describe the purpose, and provide a summary, of your testimony.**

10 **A.** I am providing testimony on the Company's Transmission Department Storm Plan
11 and the implementation of that Plan for Hurricanes Charley, Frances, Ivan, and
12 Jeanne. My testimony will describe each of the four parts of the Transmission
13 Department Storm Plan: (1) Pre-Season Activities; (2) Pre-Storm Activities; (3)
14 Damage Assessment and Repair; and (4) Recovery Follow-up Activities. This
15 testimony will explain the organization, coordination, and management of personnel,
16 material, and equipment to prepare for, respond to, and recover from the effects of
17 severe storms on the Company's transmission system. Because the Plan is updated
18 with each storm, my testimony describing the four parts of the Plan will further
19 explain the implementation of the Plan during and following the four hurricanes that
20 struck PEF's service territory during the 2004 hurricane season.

21 I will further testify about the severe damage to PEF's transmission system as
22 a result of Hurricane Charley and the subsequent, less severe, but more extensive
23 damage from Hurricanes Frances and Jeanne. I will explain the scope and extent of

2 that storm damage and the Company's extraordinary efforts to prepare for, respond
3 to, and recover from the storms. This testimony will include the work done during
4 the storms to enable the safe and expeditious restoration of customer service and the
5 follow-up work that was completed and remains to be done to ensure that the
6 transmission system is restored as much as possible to its condition prior to the
7 storms.

8 **Q. Are you sponsoring any exhibits to your testimony?**

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

10 **SSR-1 Map of the Company's Transmission Areas.**

11 **SSR-2 Transmission Department Storm Plan.**

12 **SSR-3 Map of Path of Hurricane Charley over PEF's Transmission**
13 **System.**

14 **SSR-4 Map of Path of Hurricane Frances over PEF's Transmission**
15 **System.**

16 **SSR-5 Map of Path of Hurricane Jeanne over PEF's Transmission**
17 **System.**

18 **SSR-6 Composite Map of Hurricane Paths on PEF's Transmission**
19 **System.**

20 **SSR-7 Composite Exhibit of Pictures of Transmission Storm Damage.**

21 Each of these exhibits was prepared under my direction, and each is true and accurate.
22
23

III. THE COMPANY'S TRANSMISSION SYSTEM

1
2 **Q. Please describe the Company's existing transmission system.**

3 **A.** The Company's transmission system connects the Company's 62 generation units
4 through 363 substations to the distribution system to serve approximately 1.5 million
5 customers in 35 of the state's 67 counties. By pole mile there are 169 miles of 500kV
6 transmission lines, 1,215 miles of 230kV lines, 760 miles of 115kV lines, 2,029 miles
7 of 69kV lines, for a total of 4,174 transmission pole miles within the approximately
8 20,000 square miles of PEF's service territory. These lines are supported by a variety
9 of different structures, including aluminum towers, steel towers, and concrete, steel,
10 and wood poles in various configurations, and include a wide variety of related
11 equipment and material, including various types and quantities of cable, ground rods,
12 bolts, insulators, and connectors.

13
14 **Q. How is the Company's transmission system organized?**

15 **A.** The Company's transmission system is divided into four regions: Suncoast, South
16 Central Florida, North Central Florida, and North Florida. A map of the Company's
17 transmission areas is included as Exhibit __ (SSR-1) to my testimony. Each of these
18 four regions serves as an area storm center with its own storm/emergency plan under
19 the Transmission Department Storm Plan.

20 21 IV. THE COMPANY'S TRANSMISSION DEPARTMENT STORM PLAN

22 **Q. Does the Company have a storm plan for its transmission system?**

1 A. Yes, it does. The Transmission Department Storm Plan is the creation of best
2 practices between the Company and its sister company in North Carolina and, thus,
3 incorporates the experience and lessons learned from more recent hurricanes and ice
4 storms in the Carolinas. The Transmission Department Storm Plan covers
5 catastrophic damage to transmission facilities where repair is beyond the local
6 transmission maintenance personnel or the issuance of a wide area severe weather
7 warning by the National Weather Service.

8
9 **Q. Please describe the Transmission Department Storm Plan.**

10 A. The main objective of the Plan is to enable the Company to quickly assess damage to
11 the transmission system, determine the manpower and other requirements needed to
12 correct the damage, and initiate the appropriate restoration response. The Plan is
13 designed to inform Company personnel, including the Transmission System
14 Coordinator, about the resources available to them when a severe storm occurs and to
15 assist them in directing and coordinating the preparation for, response to, and
16 recovery from the impact of a severe storm on the transmission system. The storm
17 plan is made available to all employees who have assigned duties with respect to the
18 transmission system during severe storms.

19 The Plan is divided into four areas to accomplish this objective: (1) Pre-
20 Season Activities; (2) Pre-Storm Activities; (3) Damage Assessment and Repair; and
21 (4) Recovery Follow-up Activities. Pre-season activities include reviewing and
22 revising the Plan on an ongoing basis to ensure that it is current and incorporates the
23 Company's latest knowledge learned from dealing with severe storms. These

1 activities also include the necessary arrangements prior to the severe storm and
2 hurricane seasons to ensure that the Company is prepared for the storms.

3 Pre-storm activities involve the preparation for a storm as the storm
4 approaches PEF's service territory. The amount of preparation that takes place
5 depends on the probability the storm will hit PEF's service territory. The more likely
6 a storm will hit the more preparation that takes place. This preparation may involve
7 setting up the storm center or area storm centers and activating teams as may be
8 required to respond to a particular storm. In addition, we have check lists that specify
9 tasks to be completed 72 hours, 48 hours, and 24 hours prior to the storm hitting.

10 Damage Assessment and Repair commences as the storm passes through
11 PEF's service territory and continues after the storm has passed. This information is
12 used to determine the resources needed for the restoration process and to begin to
13 assess priorities for the restoration work.

14 Recovery Follow-up Activities involve all aspects of winding down the
15 Company's storm response and restoration efforts. This includes deactivating the
16 storm centers, canceling outside contractors and releasing crews, de-mobilizing
17 Company storm crews, and finishing any required clean-up.

18 The Company is constantly improving its Transmission Department Storm
19 Plan as it learns more about responding to severe storms. In this way, the Plan is a
20 living document, reflecting the Company's most up-to-date knowledge about the
21 preparation for and response to severe storms. As noted above, lessons learned from
22 our sister company in the Carolinas in prior hurricanes and ice storms were, for
23 example, incorporated into the plan prior to its adoption as a best practice for PEF. A

1 copy of the Company's current Transmission Department Storm Plan is included as
2 Exhibit ___ (SSR-2) to my testimony.

3
4 **Q. How is the Company's storm response organized under the Plan?**

5 **A.** As the Vice President of Transmission for PEF I am the Transmission System
6 Coordinator. I decide when to implement the Plan as a severe storm approaches and
7 call for the Transmission Storm Center to be set up. The Transmission Storm Center
8 is the central command for the Company's preparation for and response to severe
9 storm damage to its transmission system. The Transmission Storm Center is set up at
10 the Company's offices in Lake Mary unless the approaching storm requires the
11 Center to be set up in an alternative location.

12 There are two Assistant Transmission System Coordinators, the Director of
13 Transmission Construction and the Director of Transmission Engineering for the
14 Company. They are also located in the Transmission Storm Center with the
15 Transmission System Coordinator. This provides the Company with immediate
16 access to the Company's expertise in transmission construction and engineering
17 during the storm. Their responsibilities are spelled out in more detail in the
18 Company's Plan.

19 In a separate location at Lake Mary, a Transmission Logistics Center is
20 established and led by the Logistics Support Coordinators. The Transmission
21 Logistics Center is established to provide material, engineering, contracting,
22 accounting, and scheduling support during storm restoration activities at the direction
23 of the Transmission System Coordinator. The responsibilities of the Logistics

1 Support Coordinators are also set forth in more detail in the Transmission Department
2 Storm Plan.

3 If the damage to the transmission system from the storm affects one or more
4 of the four transmission areas, the area storm centers will be activated. Each of the
5 four transmission areas has its own storm center located in the transmission area and
6 its own storm plan. The transmission area storm centers are led by the Area
7 Transmission Coordinators. The responsibilities of the Area Transmission
8 Coordinators are set forth in both the Transmission Department Storm Plan and in the
9 respective transmission area storm plan because the area storm plans are components
10 of the Transmission Department Storm Plan. The transmission areas storm plans are
11 also updated as the Company improves its storm preparation and response and
12 updates its Transmission Department Storm Plan.

13
14 **Q. What are the Company's transmission system priorities during a severe storm?**

15 **A.** The safety of the public and the Company's customers is the paramount consideration
16 when the storm plan is in effect. The first objective toward this goal is to make sure
17 that the reliability of the state-wide transmission grid is not undermined as a result of
18 the storm. Transmission support for the Company's generators is also critical to
19 ensure that adequate generation capacity is available during the storm for those
20 customers with continued service and immediately after restoration efforts for those
21 customers who lost electric service as a result of the storm. As part of the Plan, the
22 Company prioritized its transmission lines in terms of grid security for the state and
23 PEF and economic impact to PEF and its customers.

1 Once the transmission grid is stabilized and the connections to the generation
2 facilities are secure, the Company's next priority is energizing substations that have
3 been de-energized due to the storm as a result of the loss of transmission service or
4 other storm damage. Transmission crews focus on repairing storm damage to the
5 substations and establishing at least one connection to transmission line service that
6 can be energized. Substation service must be re-established to enable the distribution
7 system to begin restoring power to customers. Accordingly, the Company works to
8 restore substations as quickly as possible.

9 The next priority for transmission during and immediately following a severe
10 storm is work on the transmission lines with the least significant damage. The
11 Company then moves from transmission line to transmission line according to the
12 severity of the storm damage.

13 During a severe storm, the Transmission System Coordinator takes direction
14 from the Company's Energy Control Center (ECC) to establish the priorities for
15 transmission storm restoration work. ECC will identify the transmission lines that
16 have lost power during the storm and prioritize the restoration of the lines to maintain
17 reliability of the grid, support the Company's generation facilities, and then begin
18 restoration of customer service. The Transmission System Coordinator also consults
19 with the Distribution System Storm Center on a regular basis during and following
20 the storm to determine the distribution priorities, which generally center around
21 restoring power to the most critical customers and the most customers possible.
22 Finally, the local transmission area storm centers report storm damage and restoration
23 efforts in their areas from their field crews on an ongoing basis and this information is

1 also used to establish and adjust priorities as the restoration process proceeds.

2 Additionally, the local transmission storm centers also coordinate closely with the
3 wholesale customers to coordinate and prioritize the restoration of affected points of
4 delivery to their distribution systems.

5
6 **Q. Are there other ways that the Company coordinates its storm restoration
7 efforts?**

8 **A.** Yes. In addition to the constant communication between the transmission and
9 distribution storm centers and the ECC, the distribution storm response team further
10 provides the transmission department with much of its logistics needs, such as
11 lodging for the transmission line and tree crews and shared staging areas, where
12 practicable. In some ways, however, further efficiencies between the transmission
13 and distribution storm response efforts simply cannot be achieved. The transmission
14 storm restoration effort, for example, requires line crews skilled in transmission line
15 work and specialized equipment. The distribution storm center cannot then, share
16 line crews and much of the equipment it needs to respond to the storm with the
17 Transmission Department. The transmission and distribution storm centers will share
18 resources, however, when practicable and efficient to do so.

19
20 **Q. When does the Company implement its Transmission Department Storm Plan
21 during a hurricane and how does it work?**

22 **A.** The Transmission System Coordinator will decide to implement the Plan and set up
23 the Transmission Storm Center between 96 and 72 hours prior to the hurricane's

1 making landfall. Upon implementation of the Plan and the area storm plans, the
2 Storm Center, the logistics center, and the transmission area storm centers are
3 activated and the coordinators commence their storm preparation work. Detailed lists
4 of these pre-storm activities are set forth in the Plan and in the areas storm plans.
5 Commencing 96 to 72 hours ahead of the storm, for example, the responsible storm
6 personnel check inventories of materials, the conditions of vehicles and equipment,
7 and gather lists of outside contractors, equipment vendors, and material suppliers and
8 reserve or hold critical material and equipment. Between 72 and 48 hours before the
9 hurricane, the number of available transmission construction crews are identified and
10 arrangements made to secure them for work during the storm, substations are secured,
11 helicopter service is contacted to verify availability, and the storm plan is reviewed
12 and all tools and equipment are checked and readied for the storm.

13 Within 48 and 24 hours before the hurricane, crew assignments are made and
14 outside crews are contacted and reserved for storm restoration efforts. All special
15 equipment needs are identified and obtained and the crews, material, and equipment
16 are prepared for the restoration efforts.

17 Between 24 hours and the time the hurricane strikes, response team action
18 plans are developed to begin storm damage assessment, verification, and restoration
19 work schedules. All contract and Company crews are put on alert and assignments
20 begin and helicopter crews are put in place. As soon as it is safe, the helicopters are
21 called and Company damage assessment teams fly the transmission lines and assess
22 the damage. Right-of-way damage is also assessed, right-of-way clearing needs are
23 identified, and clearing activities commence. Patrols are also sent out by truck to

1 assess damage, make assignments for the restoration work, and begin to sectionalize
2 the transmission system through switches to get substations back on line. Material
3 and equipment not otherwise available are ordered, the staging areas commence
4 operation, and crew work schedules are established and the restoration work
5 commences. This process is repeated throughout the storm until restoration is
6 complete. Through constant contact with ECC to determine what lines are out and
7 what lines are priorities, together with the stream of damage assessment reports
8 coming in from the aerial and land assessment teams, a work plan is developed each
9 night for the next day.

10 Further detail on the storm preparation activities and the storm restoration
11 work is contained in the Company's storm plan and area storm plans.

12
13 **Q. How do you measure the effectiveness of your storm planning and restoration**
14 **process?**

15 **A.** We measure our storm restoration effectiveness through daily estimated time of
16 restoration (ETR) goals for energizing substations. Remember, the transmission
17 system must be up and running before customers connected to the distribution system
18 and wholesale customers can receive power. The emphasis of the Transmission
19 Department then, is to energize the substations that have been knocked out by the
20 storm to set the stage for the restoration of customer service. We begin setting ETR
21 goals for our substations immediately and revise them as we learn more about the
22 storm damage from our damage assessment teams and as we begin to prioritize our
23 resources. Each day, we strive to meet or exceed our ETR goals.

1 Our planning effectiveness begins with the implementation of our storm plan.
2 We know our plan incorporates the knowledge gained through our sister company's
3 experience with hurricanes and ice storms in the Carolinas and has proven to be
4 effective. We also know that we did a good job of assessing the damage and
5 projecting and obtaining our resource needs and in fact even improved in these areas
6 from storm to storm this hurricane season. This experience demonstrates that our
7 planning was sound and that we have the necessary flexibility to adapt to the
8 inevitable changes in the location, timing, and intensity of storms as they arise.

10 V. HURRICANE CHARLEY

11 **Q. Was the Transmission Department Storm Plan implemented for Hurricane**
12 **Charley?**

13 **A.** Yes, it was. The Plan was implemented on August 10, 2004, prior to the hurricane's
14 making landfall in Charlotte County on August 13, 2004.

16 **Q. What was the impact of Hurricane Charley on PEF's transmission system?**

17 **A.** Hurricane Charley had the most devastating impact on PEF's transmission system.
18 At the time Hurricane Charley made landfall it was a category 4 hurricane with
19 sustained winds of 145 miles per hour. Hurricane Charley proceeded on a
20 northeastern path across Florida, traveling through much of PEF's service territory,
21 with category 4 and 3 force winds. 700 miles of transmission lines and 83 substations
22 were knocked out of service as a result of the hurricane. 630 transmission structures
23 were knocked down or damaged. The damage to PEF's transmission system was

1 most severe along the path of the eye of Hurricane Charley as it traveled from
2 Wauchula to Fort Meade to Lake Wales and up through the Orlando area. A map
3 showing the path of Hurricane Charley across our transmission system in our service
4 territory is included as Exhibit __ (SSR-3) to my testimony.

5
6 **Q. What was the Company's response to Hurricane Charley?**

7 **A. The Company began to implement its storm plan before Hurricane Charley and**
8 continued to follow the Plan through the course of the storm restoration. As soon as
9 the winds had died down to a safe level, helicopters were used to fly damage
10 assessors along every mile of the Company's transmission system affected by the
11 storm to assess the damage. Damage assessment crews also began to drive, if
12 possible, along the affected transmission line. Eventually, every mile of the
13 Company's transmission system was checked and any storm damage was assessed
14 and reported back to the field construction and engineering crews.

15 The restoration strategy focused on first restoring lines to generation sites to
16 ensure that adequate generation capacity was available. Beginning with the energized
17 lines, the Company worked to put together a grid to restore as many substations as
18 possible. The Company does this by dividing the lines into sections around breakers
19 to isolate the damaged lines and get the substations back on line.

20 The Company's priorities are the transmission lines with the least significant
21 damage. The Company then moved from transmission line to transmission line
22 according to the severity of the storm damage. An important tool in this process was
23 the use of helicopter air cranes to fly transmission structures from the staging areas to

1 the job sites. This enabled the Company to replace the downed and damaged
2 transmission structures as quickly as possible and was especially useful in
3 inaccessible right-of-way areas and swamp land. The Company worked around-the-
4 clock to restore transmission service on all lines that were knocked out of service as a
5 result of the storm.

6 With 83 substations de-energized from Hurricane Charley, we began
7 sectionalizing lines and restoring substations as soon as the storm permitted.
8 Following this initial restoration, we established ETR goals for each remaining
9 substation. Overall we restored 93% of the substations prior to the established ETR.
10 Nearly 80% were restored within three days of the storm. All generation and
11 transmission substations that were de-energized were restored the day after the storm,
12 and nearly all retail substations were restored in six days.

13 The restoration costs directly attributable to transmission as a result of
14 Hurricane Charley are \$28 million.

15
16 **Q. When the downed transmission lines and substations are re-energized are the**
17 **Company's storm-related efforts complete?**

18 **A.** No. Once a hurricane strikes PEF's service territory, the Company works to restore
19 transmission lines to service as quickly as possible. That is the first step.
20 Transmission service from the generation facilities and to the substations must be in
21 place and energized before customer service can be restored. The Company,
22 therefore, will do whatever is necessary to safely energize the line. The second step
23 is to come back after customer service is restored to fix storm damage that did not

1 need to be corrected to energize the line. The Company must ensure that facilities
2 and equipment damaged by the storm are repaired or replaced in accordance with the
3 Company's standards.

4 For example, the shield wire above the main conductor on the transmission
5 line was broken or knocked down by tree limbs or other storm debris in a number of
6 places. This shield wire protects the main conductor from direct lightning strikes but
7 is not essential to energizing the line. Where the shield wire was broken or knocked
8 down it was cut down completely during the restoration work and the main conductor
9 was restored or replaced and energized. Following the restoration effort the
10 Company will go back and replace the shield wire where it was destroyed or damaged
11 and install the shield wire consistent with the Company's standards.

12 The Company will conduct sweeps of the transmission system after the
13 restoration work to identify further storm-related damage that must be repaired or
14 replaced. Other examples of the storm damage identified during the sweeps include
15 cracked poles, damaged conductors, flashed insulators, leaning or falling trees, failed
16 battery banks, non-functioning relays, and substation fence damage. After the sweeps
17 are complete, the Company will send out crews to correct the storm damage that was
18 identified. The Company anticipates completing its transmission storm damage
19 repairs by 2nd quarter 2005.

21 VI. HURRICANE FRANCES

22 Q. Was the Company's transmission system affected by Hurricane Frances?

1 A. Yes, it was. Although Hurricane Frances was not as intense a hurricane as Hurricane
2 Charley, it had a wider impact, affecting all of PEF's service territory, and stayed
3 over PEF's territory for a longer period of time. Strong winds with gusts of nearly
4 100 miles per hour affected PEF's service territory for almost a full day. Also, the
5 storm dumped 6 to 12 inches of rain across PEF's service territory, and some areas
6 received even more rain. Trees with roots systems weakened by the wind and rain
7 from Hurricane Charley were further weakened by Hurricane Frances and fell.

8 As a result of Hurricane Frances, 1,131 miles of PEF's transmission lines and
9 105 substations were knocked out of service. PEF had to further repair or replace 211
10 damaged transmission structures. A map showing the path of Hurricane Frances
11 across our transmission system in our service territory is included as Exhibit __ (SSR-
12 4) to my testimony.

13
14 **Q. What was the Company's response to Hurricane Frances?**

15 A. The Company again implemented its storm plan on September 1, 2004, three days
16 before the hurricane made landfall in Florida on September 4, 2004. The Company
17 followed the same restoration strategy it followed in Hurricane Charley. The only
18 difference was the restoration work in Hurricane Frances was on a much broader
19 scale. Through switching and isolation of damaged lines, 48 of the de-energized
20 substations were restored before the storm had fully cleared the state. Another 46
21 substations were restored the following day by correcting minor issues and
22 performing further switching. The remaining 11 substations were restored on the

1 third day following the storm. The Company's restoration efforts overtook its ETRs
2 before they were firmly established.

3 The restoration costs directly attributable to transmission as a result of
4 Hurricane Frances are \$18 million.

6 VII. HURRICANE IVAN

7 **Q. Did Hurricane Ivan have an impact on PEF's transmission system?**

8 **A.** Yes, but the impact was relatively minor. There were customer outages as a result of
9 the hurricane, but thankfully there was no real damage to PEF's transmission system
10 because the brunt of Hurricane Ivan occurred west of PEF's service territory. This
11 does not mean that PEF's Transmission Department did not have to prepare to
12 respond to Hurricane Ivan, however. Hours before the hurricane made landfall it was
13 projected to strike more to the east and in PEF's service territory. As a result, PEF
14 was preparing for the worst, considering the fact that Hurricane Ivan was a category 4
15 hurricane with sustained winds of 130 miles per hour. Accordingly, PEF initiated its
16 Transmission Department Storm Plan on September 13, 2004. PEF further retained
17 outside transmission crews and mobilized its own resources in anticipation of the
18 impact of the storm on its transmission system. This included providing for lodging
19 and meals for the crews, as well as mobilizing the logistics forces to back up the
20 crews with their ongoing needs to respond to the storm, including lining up necessary
21 material and equipment.

22 PEF did experience some minor damage to its transmission system and
23 customer outages but PEF was able to quickly respond and correct any damage. No

1 substations were knocked out and distribution was able to restore all power to
2 customers who lost service in two days. Crews, equipment vendors, and material
3 suppliers that were no longer needed once the impact from the storm was known were
4 released immediately from their prior commitments. The restoration costs directly
5 attributable to transmission as a result of Hurricane Ivan are \$0.9 million.

7 VIII. HURRICANE JEANNE

8 **Q. What was the impact of Hurricane Jeanne, the fourth hurricane to strike PEF's**
9 **service territory, on PEF's transmission system?**

10 **A.** Hurricane Jeanne made landfall near Stuart, Florida on September 25, 2004 as a
11 category 3 hurricane with 120 miles per hour winds. It also had a widespread impact
12 on PEF's transmission system as it proceeded across Florida through PEF's service
13 territory before exiting the state. The Company had 853 miles of transmission lines
14 and 86 substations knocked out of service by the hurricane and 75 transmission
15 structures were damaged. Storm damage to PEF's transmission system was spread
16 out over the entire transmission grid. A map showing the path of Hurricane Jeanne
17 across our transmission system in our service territory is included as Exhibit __ (SSR-
18 5) to my testimony.

19
20 **Q. How did the Company respond to Hurricane Jeanne?**

21 **A.** The Company implemented its Transmission Department Storm Plan for Hurricane
22 Jeanne on September 22, 2004 and followed the same restoration strategy it had
23 followed for the prior hurricanes. As a result of the Company's restoration efforts, 31

1 of the 86 de-energized substations were re-energized the day the hurricane struck and
2 over eighty were re-energized two days later. The remaining de-energized
3 substations were restored the next day, just three days after the storm. Again, the
4 Company's restoration efforts overtook its ETRs before they were firmly established
5 for many substations. Overall, we restored 95% of the substations prior to the
6 established ETR. Nearly 77% were restored during the day of the storm and the
7 following day. All substations capable of receiving service were restored in three
8 days.

9 The restoration costs directly attributable to transmission as a result of
10 Hurricane Jeanne are \$13.3 million.
11

12 IX. STORM SUMMARY

13 **Q. Can you provide us with an overview of the Company's logistical efforts and**
14 **resources during the course of this extraordinary hurricane season?**

15 **A.** Yes. During Hurricanes Charley, Frances, and Jeanne, we had over 350 transmission
16 linemen and 250 tree trimming personnel working on storm restoration. These
17 individuals were supported by 65 logistics personnel who saw to it that they had the
18 equipment, material, and tools they needed to do the work and coordinated their
19 travel, lodging, and meals. During these hurricanes we also used 11 cranes, 8
20 helicopters, 2 sky cranes, 9 track digger derricks, 4 marsh masters, 36 light towers, 16
21 water trucks, 6 tractors, 33 lull type forklifts, 13 backhoes, 2 dump trucks, 3
22 bulldozers, 38 generators, 6 fuel tanker trucks, and the crews to operate them.

1 Additional rental equipment was secured as needed during the course of the
2 storms, including van trailers and office trailers, air compressors, among other items.
3 This was in addition to the Company's pool equipment and material that was brought
4 to the staging areas for use in the storm restoration work. For example, four pool
5 tankers and two North Carolina tankers were used to transport fuel from the staging
6 areas to trucks and other equipment throughout the system. The Company also used
7 outside contractors to escort poles to job sites and to haul material and equipment
8 from the Company's warehouse to the staging areas and to jobsites.

9 Over 900 transmission poles were replaced during the storm restoration work
10 for Hurricanes Charley, Frances, and Jeanne. The Company used 23,000 bolts,
11 10,000 ground rods, 21,000 insulators, and 4,000 connectors on the transmission
12 system alone to respond to the storm damage. Also, the Company restored 2,684
13 miles of damaged transmission lines and restored 274 substations to service.

14
15 **Q. How does the Company determine the labor, material, and equipment needed to**
16 **respond to storm damage to the transmission system?**

17 **A.** Before the hurricane leaves PEF's service territory, PEF begins its damage
18 assessment by using helicopters and vehicles to review every mile of transmission
19 line potentially impacted by the storm. The damage assessment team records the
20 storm damage they observed and that information is passed on to the coordinators of
21 the line and tree trimming crews who will actually do the restoration work.
22 Depending on the extent of storm damage that was observed and recorded, PEF's
23 field work coordinators will determine the number of crews and the equipment and

1 material they will need. Only the number of crews needed will be retained for storm
2 restoration work. PEF has eight (8) transmission line crews and will apply these
3 resources before resorting to outside contractors and transmission crews from other
4 utilities. Logistics support obtains and arranges for the material and equipment to be
5 supplied to the lines crews where it is needed.

6 When the line crews go into the field to perform restoration work, PEF crew
7 members record the work done to repair the storm damage to an accounting number
8 assigned to the particular storm. When restoration requires that structures be
9 replaced, work estimates are developed that include the location of the work, the
10 number of poles or other transmission structures replaced, and the number and types
11 of other material used in the work. They are also provided a certain number of
12 “storm credit cards” to use for certain storm-related expenses only and charges to
13 those cards are linked to the storm account numbers. The storm account numbers and
14 estimates enable the Company to know what storm damage work was done, by
15 whom, and what material was used.

16 As actual invoices, work estimates, receipts, and other expense documents are
17 collected, cost analysts are assigned by the Company to review them to ensure that all
18 storm charges to the storm accounts qualify as storm costs or are otherwise
19 appropriately charged to the storm account. The costs analysts are not part of the
20 storm restoration effort or the Transmission Department. Any charges that do not
21 qualify as storm costs are removed from the storm account.
22

1 **Q. How would you characterize the Company's implementation of its Transmission**
2 **Department Storm Plan during the 2004 hurricane season?**

3 A. The 2004 hurricane season was unprecedented. Never before have we had four major
4 hurricanes strike our service territory in a single year let alone four hurricanes in a
5 span of about six weeks. To illustrate this, I have included as Exhibit __ (SSR-6) to
6 my testimony a composite map of the paths of the four hurricanes across PEF's
7 transmission system, and I have included as Exhibit __ (SSR-7) to my testimony a
8 composite of pictures of the storm damage our transmission system incurred. Under
9 those circumstances, and given the severe damage caused by the hurricanes; in
10 particular Hurricane Charley, the Transmission Department performed well,
11 implementing its Transmission Department Storm Plan and meeting or exceeding the
12 goals it set for itself during the storm restoration efforts. Many customers never lost
13 service at all as the Company was able to maintain the stability and integrity of its
14 transmission grid in the face of all four storms. There were, of course, lessons
15 learned during the course of the early hurricanes. But these lessons only improved
16 the Company's Plan in the later hurricanes as they were incorporated into the Plan for
17 the later storms.

18 For example, we quickly learned during Hurricane Charley that pole delivery
19 from a centralized location created bottlenecks that affected productivity. We moved
20 to decentralize pole delivery and began flying more transmission structures to the job
21 sites by air cranes. This proved to be both effective and efficient as it increased
22 restoration productivity so we made this delivery process a part of the plan for the
23 following storms. The Company's Transmission Department Storm Plan proved to

1 be an effective plan, then, guiding the expeditious and efficient restoration of the
2 transmission system during and following each of the hurricanes. An illustration of
3 what the Company was dealing with is contained in Exhibit __ (SSR-6) to my
4 testimony, which is a map of the composite paths of the four hurricanes on PEF's
5 transmission system.

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Q. Does this conclude your testimony?

A. Yes.

1 BY MR. WALLS:

2 Q Ms. Rogers, do you have a summary of your testimony?

3 A I do.

4 Q Will you provide that to the Commission at this time?

5 A Yes, I will. My name is Sarah Rogers, and I am
6 employed by Progress Energy Carolina. I am the Vice-President
7 of Transmission for Progress Energy Carolina, Inc. I am also
8 the Transmission System Coordinator for the company's
9 transmission system in the event of a severe storm or other
10 disaster.

11 The goal of our transmission storm plan is to enable
12 us to quickly assess damage on the transmission system, to
13 determine the manpower and other requirements needed to correct
14 this damage, and to initiate the appropriate restoration
15 process. To achieve this goal, our storm plan is divided into
16 phases for storm preparation and response that allows us to
17 begin to prepare for hurricanes up to 120 hours before a
18 hurricane strikes and to track and assess the damage as the
19 storm passes through our service territory. The plan enables
20 us to quickly prioritize restoration work and begin repair
21 efforts to efficiently and safely restore electric service.

22 We implemented our storm plan four times for
23 Hurricanes Charley, Frances, Ivan, and Jeanne in 2004. These
24 hurricanes caused widespread outages as severe winds knocked
25 hundreds of miles of transmission lines and hundreds of

1 substations out of service over the course of four hurricanes.
2 The damage to our transmission lines and equipment was also
3 severe, requiring us to engage and manage massive numbers of
4 line personnel and tree personnel, vehicles, equipment and
5 materials in this restoration effort.

6 As an overview, 700 miles of transmission line and 83
7 substations were out of service, and 630 transmission
8 structures were knocked down or damaged during Hurricane
9 Charley. 1,131 miles of transmission lines and 105 substations
10 were out of service, and we had to replace or repair 211
11 transmission structures during Hurricane Frances. And,
12 finally, we had 853 miles of transmission lines and 86
13 substations out of service with 75 damaged structures during
14 Hurricane Jeanne. Despite these extraordinary conditions, we
15 were able to restore lines and substations to service in record
16 time often beating our own internal restoration goals.

17 After we restore service, however, we must go back
18 and repair damage caused by the hurricanes that we bypassed in
19 our efforts to restore power as quickly as possible. The goal
20 of this work is to put the transmission system back in the
21 condition that it was prior to the hurricanes. We expect to
22 complete this work by the end of the second quarter of this
23 year.

24 We believe our storm plan proved to be an effective
25 and efficient tool to restore customer service as quickly as

1 possible during this unprecedented hurricane season. We are
2 also very proud of the response of our employees in the
3 transmission area for their hard work in making our storm plan
4 work during these four hurricanes. That concludes my summary.

5 MR. WALLS: At this time we would tender Ms. Rogers
6 for cross-examination.

7 CHAIRMAN BAEZ: Thank you, Mr. Walls.

8 Ms. Christensen.

9 CROSS EXAMINATION

10 BY MS. CHRISTENSEN:

11 Q Good afternoon, Ms. Rogers. As Vice-President of
12 transmission, part of your job requirement is the coordination
13 of storm recovery for the transmission system, is that correct?

14 A That is correct, yes.

15 Q Am I correct in understanding that your transmission
16 department storm plan is used mainly for hurricanes?

17 A That would not be correct. It is also used for ice
18 storms. It covers both the Carolinas and Florida.

19 Q Okay. But that would not cover your average
20 thunderstorm type of activity?

21 A No, it would not.

22 Q So during thunderstorms where you may have damage to
23 substations or transmission lines, you would not implement that
24 storm plan?

25 A That is correct.

Q When you implement the storm plan prior to the hurricane, the plan consists of four phases, am I correct?

A I believe so.

Q And these four phases are pre-season activities, pre-storm activities, damage assessment and repair, and recovery followup activities, am I correct?

A That is correct, yes.

Q And as part of your storm plan, would you agree that every year you engage in pre-season activities?

A Yes, it is.

Q And since these pre-season activities occur on a yearly basis, am I correct that these costs associated with the pre-season activities are included in you figuring the annual budget?

A That is correct, yes.

Q And so the cost associated with the pre-season activities are not charged to the storm accounts, am I correct?

A That is correct, yes.

Q When you initiate the pre-storm activities, is that when you begin to charge to the storm accounts?

A I am going to give you a similar answer to Mr. McDonald, it really depends upon the storm. I believe in Charley, the storm numbers were activated during the storm, but I think subsequently for Frances, Jeanne, and Ivan they were initiated prior to the actual storm hitting in the 2004 season.

1 Q Once you start charging costs to the storm accounts,
2 weren't portions of your salary and your staff's salary charged
3 to the storm accounts, those portions for persons working on
4 hurricane related items?

5 A If we were working directly on the hurricane they
6 were charged to the hurricane charge numbers.

7 Q Am I correct that immediately after the hurricanes
8 you had outside crews assigned to transmission and Progress
9 crews assigned to transmission?

10 A That is correct, yes.

11 Q And were these crews working 16-hour days immediately
12 after the hurricanes?

13 A Yes, they were.

14 Q And were they working seven days a week?

15 A In most cases, yes. We tried to provide them with a
16 rest day every seven days or so.

17 Q If you know, how many days or months after the
18 hurricanes did your workers revert back to ten hour days, six
19 days per week?

20 A Did they revert back to seven --

21 Q To ten hour days six days a week. When was the first
22 scale back for hours and days that the crews were working?

23 A For the most part they still are working those hours
24 in Florida to do the catch-up work and also to finish the
25 restoration work.

1 Q So which hours are they still currently working?

2 A Well, they work ten hour days and they are working
3 five to six days a week.

4 Q Okay. And do you know what percentage of your work
5 force is on that type of schedule?

6 A I do not know the exact percentage, but the majority.

7 Q Okay. Is that for the line crews?

8 A Yes, it is.

9 Q Am I correct that your normal budget includes
10 assumptions for some percentage of overtime?

11 A Yes, it does.

12 Q And that percentage of overtime includes some
13 overtime for outside crews who are normally contracted with
14 Progress for normal operations?

15 A No, it does not. Our contract crews are bid by job,
16 so whether the contractor chooses to pay them overtime or not
17 is up to them, but we pay one flat fee for the job.

18 Q Okay. Returning to Progress crews, is the percentage
19 of normally budgeted overtime somewhere in the range of 15 to
20 20 percent?

21 A No, it is not.

22 Q If you know, what is that percentage?

23 A It is less than 10 percent. It is between 5 and 10.

24 Q Are you familiar -- well, at the end of your
25 testimony you included some pictures of downed power poles, is

1 that correct?

2 A That is correct.

3 Q And Mr. Lyash had shown some pictures of wooden
4 transmission poles that were blown down at the ground level
5 during the service hearings. Are you familiar with those
6 pictures?

7 A I was not at the service hearings that you are
8 referring to.

9 Q Let me ask you, are you familiar with -- I mean, I
10 can show you copies of those pictures. They were attached to
11 Mr. McDonald's testimony, Exhibit 8. Have you taken a look at
12 those pictures?

13 A I have not.

14 Q Well, let me ask you this, are you familiar with
15 wooden poles?

16 A I am, yes.

17 Q Let me ask you about wooden poles, then. Am I
18 correct that the greatest stress on a wooden pole in relation
19 to the ground is approximately a third of the way up?

20 A An unloaded pole with no conductors on it, that would
21 be a true answer, yes.

22 Q Okay. Now, let me ask you would you agree that for a
23 pole in good condition, even with the equipment on it, that the
24 most likely place you would see damage due to wind sheer is a
25 third of the way up from the ground?

1 A I would not agree with that, no.

2 Q And that is because?

3 A Because a fully loaded pole has a different torque
4 arm than an unloaded pole. So a fully loaded pole with
5 conductors and insulators is going to behave differently
6 depending upon the wind sheer.

7 Q Where would you expect that to break most often?

8 A I'm not able to answer that question.

9 Q Is it correct that termites tend to attack wooden
10 poles at the first foot below the surface of the ground?

11 A I don't know the answer to that.

12 Q If the pole is buried 15 feet into the ground, is it
13 likely that when that pole is knocked over that it will be
14 knocked over flat at the ground level?

15 A It depend on what knocks it over.

16 Q If it was knocked over due to wind or other type of
17 damage, is that likely?

18 A It is likely that it will break at ground level, that
19 is correct, but it is just as likely it will break above ground
20 level.

21 Q So you are unable to exactly predict where you would
22 see the most damage on the poles?

23 A That is correct.

24 MS. CHRISTENSEN: No further questions.

25 CHAIRMAN BAEZ: Mr. McWhirter.

CROSS EXAMINATION

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BY MR. McWHIRTER:

Q Ms. Rogers, you received a Bachelor of Science in Electrical Engineering from San Diego State University and a Masters of Business Administration from Duke University?

A That is correct.

Q And I would presume from that you are well-grounded in accounting and statistics?

A That is a subjective answer. It depends on relative degrees.

Q You don't want to brag, do you? And you supervise the entire transmission system both in North Carolina and Florida?

A And South Carolina.

Q And South Carolina. And when the companies merged, did you replace somebody that had an equivalent function just for Florida? How did that work?

A Prior to the merger, I was the Vice-President of Transmission for the Carolinas. After the merger, I moved to Florida as the vice-president of transmission Florida, and then more recently I was named vice-president over both territories.

Q And was a position eliminated when you undertook that responsibility?

A The latest position? Yes, it was.

Q On Page 2 of your testimony you talk about -- on Line

1 13 your storm plan deals with pre-season activities, pre-storm
2 activities, and recovery follow-up activities. Which of those
3 activities is included in the cost for storm damage
4 cost-recovery?

5 A Pre-season storm activities -- I'm sorry. What is
6 included are pre-storm difficulties, damage assessment and
7 repair, and recovery follow-up actions.

8 Q So pre-season is not included, but the other two are?

9 A That is correct. If we do pre-storm activities and
10 the storm does not strike the service territory, then that
11 activity doesn't get charged to a storm. So if we prepare for
12 a hurricane that doesn't hit our territory, then we have to
13 absorb those pre-storm activities.

14 Q In your normal O&M budget as opposed to a storm
15 budget?

16 A That is correct.

17 Q And then when a storm hits, the storm budget picks up
18 all the costs and you are relieved of your normal costs?

19 A That is correct.

20 Q I would presume in anticipation of storms you have
21 contractors that you can readily call upon to supplement your
22 regular crews, is that correct?

23 A That is correct, yes.

24 Q And are you the person responsible for negotiating
25 those contracts?

1 A No, I'm not.

2 Q Do you have any knowledge of the basic terms of those
3 contracts?

4 A I have basic knowledge of those basic terms.

5 Q Do you have contracts between Progress Energy of
6 Florida and Progress Energy of Carolina for sending Carolina
7 crews to Florida?

8 A We do not have contracts in place.

9 Q But I presume your first tier of relief when you need
10 additional help would be to bring them to Florida from North
11 Carolina?

12 A Our first tier of relief is to use the contractors
13 that are currently on our system that are typically performing
14 construction activities, then we typically ask those
15 contractors if they can make available more personnel, then we
16 go to our sister utility in the Carolinas, and then we go
17 outside of our system.

18 Q Are the contracts when they are doing storm work, do
19 they have different payment terms for storm work than they have
20 for regular construction work?

21 A When you say they, do you mean the contractors?

22 Q The contractors, yes?

23 A No, they do not.

24 Q So if you had a contractor that was doing regular
25 construction work and that same contractor was doing storm

1 work, the prices paid would be the same?

2 A Essentially. A lot of our contract jobs are bid as a
3 lump sum, but, they have published what their hourly rates are,
4 so we pay them their hourly rates for the storm duty.

5 Q And you don't negotiate those contracts, but you are
6 essentially familiar with their terms?

7 A Correct.

8 Q Now, with respect to the people that come down from
9 Carolina, how is that handled financially?

10 A We cover their hourly wages, their food, their
11 vehicle costs, their lodging.

12 Q And then what happens up in Carolina with respect to
13 the money they would have been paid by the Carolina affiliate?
14 How does it book those costs? Does it reduce its normal O&M
15 cost or --

16 A No, it does not, because much like ourselves, they
17 have work that they have to make up when they go back. So they
18 are either bringing in off-system contractors to supplement the
19 work for us or they are working extended hours to make up.

20 Q Are those people paid by the Carolina utility or are
21 they paid by the Florida affiliate?

22 A They are paid by the Carolina utility.

23 Q And so the Florida utility sends the money to the
24 affiliate in Carolina and it handles arrangements however it
25 has to with its employees?

1 A That is correct.

2 Q And then is the opposite true, when Carolina people
3 come down to Florida -- strike that one. When Florida people
4 go up to Carolina, that is the opposite, you continue to pay
5 their standard salaries plus their standard overhead from
6 Florida rather than Carolina, right?

7 A Actually that has never happened in the four years I
8 have been down here, so I'm not exactly sure.

9 Q Florida has never sent crews to Carolina?

10 A In the transmission department we have never sent
11 crews to the Carolinas. They have never had sufficient damage
12 to require them.

13 Q I thought you had bad storms up in Carolina, but you
14 don't need people from Florida, huh?

15 A On the distribution side that has happened.

16 Q Do you know how those prices are handled?

17 A I do not.

18 Q And your total cost that you are seeking in storm
19 recovery in this case is \$60 million for the four storms. Are
20 you the one that framed that number, or did it come from your
21 accounting department?

22 A It came from the accounting folks.

23 Q And did you independently verify the numbers or did
24 you deal with the numbers at all?

25 A Not personally, no.

1 Q Now, go to Page 16 of your testimony, and I will read
2 beginning at Line 6. It says -- you're talking about things
3 that happened when there is a storm, and the line is broken or
4 knocked down. It says, "This shield wire protects the main
5 conductor from direct lightning strikes, but is not essential."
6 So you don't do anything to that. And where the shield wire
7 was broken or knocked down, it was cut down completely during
8 restoration work and the main conductor was restored or
9 replaced. Tell me what is going on there, I don't really
10 understand that.

11 A What we are doing is we are sacrificing restoring the
12 system to its normal condition for speed, so it is quicker to
13 go ahead and string the conductors that carry the electricity
14 and energize the line and go back later to put the protective
15 shield wire back on to protect the system during the lightning
16 season.

17 Q And then you go back and do your permanent
18 replacement?

19 A That is correct.

20 Q Is anything done -- and you may not know this. Is
21 anything done with respect to the way that the value that that
22 line and conductor -- and I will call it transmission pole, but
23 I know that is wrong. But is there anything that happens in
24 the books of the company from your knowledge, the accounting
25 function that changes the way that equipment appears on the

1 company's books? In other words, is it capitalized as opposed
2 to just disregard those costs for capital purposes?

3 A I don't know the answer to that.

4 Q Do you have any knowledge from your engineering
5 background and from your accounting background, when you finish
6 your restoration work, what percentage of that work would
7 normally be booked to capital work as opposed to normal O&M
8 costs, or extraordinary O&M costs?

9 A I do not know the answer to that.

10 (Transcript continues in sequence with Volume 3.)

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STATE OF FLORIDA)

 :

COUNTY OF LEON)

CERTIFICATE OF REPORTER

I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter Services, FPSC Division of Commission Clerk and Administrative Services, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 31st day of March, 2005.

JANE FAUROT, RPR
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