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 Subject: Electronic filing in Docket No. 041272-EI - Progress Energy Base Rate Increase Case
 Attachments: Progress Energy storm SMW post hearing brief April 26, 2005.doc

1. Michael B. Twomey, Post Office Box 5256, Tallahassee, Florida 32314-5256, (850) 421-9530, miketwomey@talstar.com is responsible for this electronic filing;

2. The filing is to be made in Docket No. 041272-EI, In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Francis, Jeanne, and Ivan, by Progress Energy Florida, Inc.

3. The filing is made on behalf of Sugarmill Woods Civic Association, Inc.;

4. The total number of pages is 7; and

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Word format is Sugarmill Woods Civic Association, Inc.'s Post Hearing Statement of Issues and Positions.

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BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

DOCKET NO. 041272-EI
ORDER NO. PSC-05-0339-PHO-EI
FILED: April 26, 2005

SMW POST HEARING STATEMENT OF ISSUES, POSITIONS AND BRIEF

Pursuant to Order No. PSC-04-1151-PCO-EI, issued November 18, 2004, Sugarmill

Woods Civic Association, Inc. files its Post Hearing Statement Of Issues, Positions

And Brief On Issues 15 and 16, as follows:

Sugarmill Woods Civic Association, Inc. ("SMW") will submit its statement of issues and positions in this document and a short brief on issues 15 and 16 in a separately filed document.

BASIC POSITION

SMW: *Per its Agreement, Progress Energy Florida (PEF) cannot request a base rate increase effective prior to January 1, 2006 unless its return on equity falls below 10 percent. PEF should be required to charge its prudent 2004 storm recovery expenses to its storm fund balance and amortize the balance over five years. An increase in its storm damage reserve accrual, and other related relief, may be addressed in its upcoming base rate case.*

ISSUE 1: **WITHDRAWN**

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

SMW: *No. The Commission should prevent PEF's attempted "double dipping" by requiring it to charge only extraordinary expenses, incremental to base levels, to the storm reserve. This means only overtime labor expense of bargaining unit employees (and non-exempt management) should be charged to the storm reserve.

\$5.46 million of the amount PEF charged to the storm reserve should be disallowed.*

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

SMW: *No. No part of the payroll associated with exempt management employees should be charged to the storm reserve. The Commission should remove \$6.40 million from the amount PEF seeks to recover from customers.*

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

SMW: *PEF should stop charging costs related to the 2004 storm season as of July 1, 2005.*

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

SMW: *No. Employee training, including that related to storm restoration work, is a basic function that PEF must provide. Related expenses are not extraordinary, and should not be charged to the storm damage reserve.*

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

SMW: *No. PEF should be allowed to charge only the increment above its normal, budgeted levels. PEF's variance between budgeted amounts and actual expenses during the period of restoration was a positive \$1.4 million, meaning it charged a portion of the normal amount to the storm reserve. The Commission should disallow this amount.*

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

SMW: *No. PEF should charge only extraordinary expenses, incremental to normal levels it would have incurred in any event, to the storm reserve. PEF has charged vehicle depreciation expense and base levels of vehicle operating expense to the storm damage reserve. These expenses are covered by base revenues that customers provide. The Commission should limit recovery of vehicle-related costs to the incremental fuel costs associated with extra shifts. It should adjust the amount that PEF seeks to recover by \$3.04 million.*

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

AAPR: *PEF should charge only extraordinary levels of call center expenses, incremental to normal levels, to the storm damage reserve account. *

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

SMW: *PEF has a basic obligation as a public utility to keep its customers informed, particularly during emergencies. Customers should not be required to pay a surcharge to receive the benefits of this basic function. All advertising and/or public relations expense that PEF charged to the storm reserve, amounting to \$2,428,891, should be disallowed.*

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

SMW: *PEF should not charge uncollectible expense to the storm damage reserve. The use of the reserve should be limited to the extraordinary costs of repairing PEF's system and restoring service. Uncollectible expense does not fall into this category. In addition, the determination as to whether uncollectible expense was attributable to the storms is speculative. The Commission should disallow \$2.25 million of the amount PEF seeks to recover for uncollectible expense.*

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

SMW: *PEF should be required to offset its storm-related costs with those revenues that it received for recovery of costs associated with the level of normal operating and maintenance expenses that would have otherwise been incurred by PEF since the effective date of the Stipulation and Settlement. In the future, PEF should credit such revenues to the storm damage reserve.*

ISSUE 12: **Has PEF appropriately removed from the costs it seeks in its petition all costs that should be booked to the reserve for cost of removal expense as the cost of removing plant damaged during the storm? If not, what adjustments should be made? (This issue was partially stipulated as a Category 1 Stipulation, Number 1)**

SMW: *With respect to damaged plant that was removed following the 2004 storms, PEF should charge normal average amounts of cost of removal expense to the cost of removal reserve, where the cost of removal expense related to said plant

that it has been collecting from customers over time through depreciation rates now resides. PEF has understated the cost of removal expense to be charged to the reserve for cost of removal by approximately \$10 million. The effect is to overstate costs charged to the storm damage reserve by this amount.*

ISSUE 13: STIPULATION – CATEGORY 1 STIPULATION, NUMBER 2

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

SMW: *The amount sought by PEF should be reduced by a minimum of \$31.5 million as a result of the resolution of issues 1-14.*

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

SMW: *Yes. Based on the stipulation, the amount of costs that Progress Energy can recover from customers should be zero until its return on equity falls to 10%. The timing of Progress Energy collecting any costs from customers is also controlled in the stipulation by language that states its return on equity must fall to 10% before it can petition for a change in base rates and charges.*

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

SMW: *Yes. Investors are paid to accept risks, including the potential for storm damage, and the Commission should not insulate investors from that risk by placing 100% of the risk on customers. A 10% ROE is more than adequate currently to provide investors with a reasonable return. Therefore, even if the Commission were to determine that the 2002 stipulation does not require this result, the 10% ROE criterion is a reasonable basis on which to apportion the storm-related costs.*

ISSUE 17: What is the appropriate amount of storm-related costs to be recovered from the customers?

SMW: *If the Commission does not totally reject surcharge recovery in this docket and defer expense recovery from customers to an adjustment of the storm accrual and amortization over five years, the amount sought by PEF in this case should be reduced by a minimum of \$141 million.*

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

SMW: *The unamortized balance approved for recovery from customers should be reported as a regulatory asset and maintained in a separate subaccount.*

ISSUE 19: What is the appropriate methodology to calculate the interest charged on the amount of storm-related costs permitted to be recovered from customers?

SMW: *No position.*

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

SMW: *A temporary surcharge to base rates. Within 90 days of the Commission’s vote, PEF should submit a final report detailing its actual costs and the amount collected by application of the surcharge. 60 days later, parties should be required to identify any costs they object to. The Commission should conduct appropriate proceedings on any disputed costs and then order PEF to “true up” the amounts to be collected to match the amounts finally determined to be recoverable from customers.*

ISSUE 21: STIPULATION – CATEGORY 2 STIPULATION, NUMBER 1

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

SMW: *No position.*

ISSUE 23: STIPULATION – CATEGORY 1 STIPULATION, NUMBER 4

ISSUE 24: STIPULATION – CATEGORY 1 STIPULATION, NUMBER 5

ISSUE 25: STIPULATION – CATEGORY 1 STIPULATION, NUMBER 6

ISSUE 26: What are the effects, if any, of the study that PEF (then Florida Power) submitted to the Commission in Docket No. 930867-EI on February 28, 1994 and Order No. PSC-94-0852-FOF-EI, issued in Docket Nos. 940621-EI and 930867-EI on July 13, 1994 on the manner in which PEF may account for storm-related costs in this proceeding?

SMW: *The documents are not dispositive of issues regarding how PEF should account for costs in this proceeding. The Commission made no findings regarding the accounting methodology that PEF advanced in the document. The Commission should not find the study persuasive on the merits because PEF’s approach has the counterintuitive and prejudicial effect on customers of requiring ratepayers to pay

normal O&M costs a second time through inclusion in the amount of storm-related costs that PEF proposes to collect from customers.*

ISSUE 27: Should the docket be closed?

SMW: *No. The docket should remain open to enable parties and the Commission to ensure that PEF collects the appropriate amount.*

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished to the following individuals as indicated in the service list on this 26th day of April, 2005.

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