

ORIGINAL

Timolyn Henry

From: Tim Perry [tperry@mac-law.com]
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 To: Filings@psc.state.fl.us
 Cc: tperry@mac-law.com
 Subject: Docket No. 041272-EI
 Attachments: FIPUG's Post-Hearing Brief and Statement of Issues and Positions - 4-26-05.pdf

1. Timothy J. Perry, Esq., McWhirter Reeves, 117 S. Gadsden Street, Tallahassee, FL 32301, (850) 222-2525, tperry@mac-law.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, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.*;
3. The filing is made on behalf of the Florida Industrial Power Users Group;
4. The total number of pages is 18; and
5. Attached to this e-mail in Adobe format is the Florida Industrial Power Users Group's Post-Hearing Brief and Statement of Issues and Positions.

Timothy J. Perry
 McWhirter Reeves
 117 S. Gadsden St.
 Tallahassee, FL 32301
 (850) 222-2525
 (850) 222-5606 - Fax
tperry@mac-law.com

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ORIGINAL

BEFORE THE FLORIDA 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
Filed: April 26, 2005

FLORIDA INDUSTRIAL POWER USERS GROUP'S POST-HEARING BRIEF
AND STATEMENT OF ISSUES AND POSITIONS

PRELIMINARY STATEMENT¹

Pursuant to Rule 28-106.215, Florida Administrative Code, FIPUG hereby files its Post-Hearing Brief and Statement of Issues and Positions.

INTRODUCTION

This post-hearing brief will be short and to the point. The overriding issue that must be addressed in this proceeding is whether the Commission will continue to adhere to the principle it expressed in June 1993² in the leading storm order. In that order, the Commission set the standard for all of the storm damage cases that followed. The Commission said:

FPL's cost recovery proposal goes beyond the substitution of self-insurance for its existing policy. The utility wants a guarantee that storm losses will have no effect on its earnings. We believe it would be inappropriate to transfer all risk of storm loss directly to ratepayers. The Commission has never required ratepayers to indemnify utilities from storm damage. Even with traditional insurance, utilities are not free from this risk. This type of damage is a normal business risk in Florida.³

¹The following abbreviations are used in this brief: the Florida Public Service Commission is referred to as the Commission. The Office of Public Counsel is called OPC. The Florida Industrial Power Users Group is called FIPUG. Progress Energy Florida is called PEF. The transcript is referred to as (Tr.) followed by the page number, and exhibits are referred to as Exhibit No. _____. Commission Rule 25-6.1043, Florida Administrative Code, is sometimes referred to as the Storm Damage Rule.

² In re: Petition to implement a self-insurance by Florida Power and Light Company, Docket No. 930405-EI, Order No. PSC-93-0918-FOF-EI. ("the lead case").

³ Id.

The message sent by that order was clear: utility companies are not risk free in storm damage cases and utility earnings are not immune from reasonable adjustments.

SUMMARY OF ARGUMENT

PEF has gone further than the Commission perceived FPL was attempting to go in 1993 in the lead case.⁴ In this case, PEF has presented a three-pronged approach: 1) PEF shifts all risk of loss to consumers; 2) PEF asks the Commission to create a new cost recovery mechanism where none existed before; and 3) PEF seeks double recovery by recovering its storm damage costs in addition to normal levels of operating and maintenance costs included in base rates.

The first prong of PEF's petition strikes consumers in the heart, the second and third hit below the belt. By seeking payment for storm damages through a cost recovery clause rather than base rates, PEF hopes to avoid the commitment it made in its 2002 rate settlement agreement with consumers⁵ to absorb all expenses without seeking a base rate adjustment until its return on equity falls below 10%. In addition, PEF hopes the Commission will ignore excessive earnings when reviewing its petition for recovery of storm damage costs.

In the 2 years prior to the hurricanes of 2004, the Stipulation and Settlement allowed PEF to earn in excess of the 13% high point of its 1993 authorized return on equity.⁶ If it can achieve its end in this case, PEF will realize a non-refundable profit in 2004 that exceeds 14%, 100 basis points beyond the previously granted high point. FIPUG lived up to its end of the 2002 settlement agreement and did not complain when PEF's profits exceeded the earnings ceiling.

⁴ Id.

⁵ In Re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase annual contribution to storm and property insurance reserve fund by Florida Power and Light Company, Docket No. 000824-EI, Order No. PSC-02-0655-AS-EI. ("Stipulation and Settlement")

⁶ In Re: Petition for a rate increase by Florida Power Corporation, Docket No. 910890-EI, Order No. PSC-92-1197-FOF-EI.

Consumers expect PEF to live up to its end of the bargain now that storm expenses have caused earnings to fall below the floor.

The arguments presented by FIPUG depict the unfairness to ratepayers of PEF's devices and provides a resolution that is just and equitable for all parties. FIPUG first addresses the PEF accounting scheme that results in double recovery of normal expenses. Next, it points to a fair method for sharing storm damage costs and shows why the ratepayers' share of the storm damage costs should be recovered through a short-term rate rider. Finally, FIPUG addresses PEF's proposal to recover demand related costs from demand metered customers through a kWh charge, which results in under collections from some customers in the class and over collections from others, for no discernable reason.

ARGUMENT

I. Progress Energy Should not get Double Recovery For Storm Damage Costs Issues 2, 3, 5-12 and 26

Since insurance was devised in the 16th Century, the basic concept has remained the same: insurers provide the service of estimating the type of loss that might occur and its potential cost, then spread that cost over a very large group. Using this design, insurance is able to provide protection for the injured party against a catastrophic loss for a relatively small fee. The Commission's storm orders recognized the value of spreading the cost over a national or international base. PEF was ordered to continue its attempts to obtain insurance and to explore the benefits of a mutual Florida utility sharing pool.⁷ An unintended outcome of ordering utilities to look for insurance is the fact that, from the utility viewpoint, there is no incentive to

⁷ In Re: Petition of Florida Power Corporation for authorization to implement a self-insurance program for storm damage to its T&D Lines and to increase annual storm damage expenses, Docket No. 930867-EI, Order No. PSC-93-1522-FOF-EI.

buy insurance to spread the risk for the benefit of their customers if they can keep the insurance premiums approved in base rates and require consumers to pay the full storm cost.

After Hurricane Andrew, the perceived cost of storm damage rose and insurance premiums rose along with it. In Docket No. 930867-EI, PEF's [nee FPC] John Scardino testified that:

. . . FPC is experiencing difficulty in renewing its insurance program for T&D lines. The Company solicited quotations from current carriers, prospective carriers in the United States and London, and Line Insurance Company, a mutual that the utility industry organized several months ago to offer T&D coverage to electric utilities on a risk sharing basis.⁸

Further, Mr. Scardino testified that the insurance premium quotes he had received were 5 to 15 times higher than current insurance coverage and the deductibles were 9 times higher. Predictably, the utility sharing pool approach failed because utility companies don't want to share in the risk of loss as insurance carriers would if they can the ratepayers bear all the risk.

In 1993 PEF opted for "self insurance," but as you will see below that phrase is obsolete. Utility self-insurance as envisioned in the lead case⁹ and the Storm Damage Rule¹⁰, arose in the framework of base rates. The Storm Damage Rule allows a utility to defer storm damage expense until it has time to collect the costs through base rates. The logic of the rule is based upon the understanding that without the deferral, as Ms. Brown explained¹¹, utilities would suffer the entire loss. This is because electric rates are set prospectively. Without the storm damage rule, non-recurring prior storm losses would be ignored in a base rate case. With deferral, base rates

⁸ *Id.*

⁹ Order No. PSC-93-0918-FOF-EI, *supra*.

¹⁰ Rule 25-6.0143, Florida Administrative Code.

¹¹ Tr. 774.

can be set to allow a storm damage recovery. At the same time, if earnings are out of line, excess earnings can be used to partially defray the storm expense.

Rate history and public acceptance are two of the statutory criteria that govern base rate cases.¹² From the viewpoint of history and public acceptance, the base rate approach to storm damage is far preferable to method chosen by PEF in this case. This is because in a base rate proceeding, utility earnings are considered in conjunction with storm expense recovery. Thus, in a base rate proceeding the Commission can consider earnings when apportioning risk between the utility (the insured) and the ratepayer (the insurer), similar to how risk is shared with commercial insurance. If necessary, the Commission can then limit earnings and apply any excess earnings to defray storm costs. FIPUG believes that the Commission in the lead case envisioned this “earnings limitation approach.”¹³

PEF is not only aware of this earnings limitation approach; it proposed it in 1994.¹⁴ In that case, PEF proposed to cap its 1994 earnings at a 12.50% ROE, to apply any overearnings to first accelerate the Sebring going concern value and then recognize additional storm damage expense.¹⁵ The Commission in the 1996 Gulf Power storm case again implemented the earnings limitation approach.¹⁶ In that case, the Commission approved a proposal by Gulf Power to apply any earnings for calendar year 1995 in excess of 12.75% return on equity to the Company's

¹² §366.06(1), Florida Statutes.

¹³ Order No. PSC-93-0918-FOF-EI, *supra*.

¹⁴ In re: Investigation into Currently Authorized Return on Equity and Earnings of Florida Power Corporation; In Re: Petition for Authorization to Implement a Self-Insurance Program for Storm Damage to its Transmission and Distribution (T & D) Lines and to Increase Annual Storm Damage Expense by Florida Power Corporation, Docket Nos. 940621-EI, 930867-EI, Order No. PSC-94-0852-FOF-EI.

¹⁵ Id.

¹⁶ In Re: Petition For Approval of Special Accounting Treatment of Expenditures Related to Hurricane Erin and Hurricane Opal by Gulf Power Company, Docket No. 951433-EI, Order No. PSC-96-0023-FOF-EI.

uninsured property damage reserve, which had achieved a negative balance as a result of Hurricanes Erin and Opal.¹⁷

Now PEF has come up with a better idea—from the utility perspective. In addition to using shrewd accounting to get double recovery for some expenses (which will be explained below) it opts to forget about base rate recovery and uses a cost recovery clause instead. This approach makes customers fully guarantee the cost, provide enhanced utility profits and pay interest on the unliquidated cost estimate. The term self-insurance becomes a gross misnomer. The proper appellation is “customer recovery and profit.”

The PEF plan turns the storm recovery rule on its head. Instead of a device to protect the utility from unanticipated expenses and to provide time for the Commission to examine storm losses in connection with other costs and earnings the rule is used to provide a guaranteed profit sweetener. This is a purpose that was never intended when the rule was adopted in the context of base rates. The deferral of expenses, on top of the “double dipping”¹⁸ accounting manipulation explained below bolsters 2004 earnings appreciably

PEF disclosed in 1994¹⁹ the method it would use to book costs to the storm damage reserve. Essentially, at that time it said costs attributable to the storm would be booked to the storm reserve.²⁰ Few would realize that the utility meant to include normal costs as storm expense as well as incremental costs the storm brought on. In fact, since the study was filed there has never been a docketed proceeding where the methodology that PEF uses to charge costs to the storm damage reserve is addressed.

¹⁷ Id.

¹⁸ Tr. 681.

¹⁹ Exhibit No. 42. This Commission ordered PEF to file this study in Order No PSC-93-1522-FOF-EI. However, after the study was filed the Commission never entered an order expressly approving the methodology set forth in the study.

²⁰ Exhibit No. 42, page 9.

The 1993 study was conducted with base rates in mind. Today, PEF asks for a guaranteed cost recovery mechanism that is something entirely different. A base rate proceeding enables the Commission to not only examine the prudence of the costs charged, it can also eliminate double dipping, relate storm costs to an excess depreciation reserve and implement some form of cost sharing by restricting the utility's return. PEF plans to eliminate the cost sharing option by carving these costs out of base rates and placing them in a new cost recovery clause.

Intervenors have identified the areas where double recovery takes place under PEF's new approach. Issues 2 through 12 enumerate the areas where the regulatory experts determined that consumers had already paid for PEF's storm expenses in the normal course of business. They found that PEF is trying to collect for the same work a second time by designating normal work storm damage.²¹ PEF admits this! It places the blame on the Commission by saying that because the accounting method was mentioned ten years ago in the company's 1994 storm damage study,²² the Commission is bound to the approach in this case. It further attempts to justify "double dipping" in 2004 by claiming that its normal operating and maintenance costs will rise due to "makeup work", but offers no evidence other than a \$25 million unsupported estimate. PEF incredulously claims that in spite of the fact that \$385.8 million²³ was spent to repair storm damage (much to rebuild or repair aging parts of its system), none of this work will reduce any future O&M costs or makeup work.²⁴

As a result of the PEF's questionable accounting technique, a large portion of the base rates paid by customers to cover normal expenses were converted in 2004 to corporate profits

²¹ Tr. 678-690, 755-762

²² Exhibit No. 42

²³ Exhibit No. 44

²⁴ Tr. 574.

worth millions.²⁵ What should the Commission do about the accounting legerdemain? At the very least, normal operating expenses should be deducted from the storm damage claim, but identifying the precise amount in the world of utility trade secrets and proprietary information is easier said than done. Intervenors and the utility agree that it would entail extensive audits that neither the allotted time nor the consumers' budgets would permit. FIPUG expert Sheree Brown developed a much simpler approach that will be discussed below.

II. FIPUG Recommendations on the Double Recovery Issues

FIPUG respectfully suggests that only incremental costs over normal costs be classified as storm damage.²⁶ This is the way PEF's affiliate Progress Energy of Carolina does the accounting under the watchful eye of the North Carolina and South Carolina regulators.²⁷

FIPUG further recommends that the cost recovery mechanism PEF is attempting to use in Florida be discarded and that PEF be compelled to use the same base rate approach it used at the Federal Energy Regulatory Commission for dealing with the same storm damage in its wholesale rates.²⁸ It asked FERC to allow it to amortize the cost in base rates. At FERC, there was no request for a wholesale rate increase to cover 2004 storm damage.

Finally, FIPUG recommends that the subject of the proper apportionment of storm damage restoration work between permanent capital improvements and other non-recurring incremental storm-unique activities is worthy of a rule. As is illustrated in Exhibit No. 44, the capitalized percent of storm damage costs represents \$48.8 million, or 12.5% of the \$385.8

²⁵ Tr. 757-762.

²⁶ Tr. 761-762.

²⁷ Tr. 755-56.

²⁸ Tr. 782.

million total. Thus, the percent amount of capitalized storm costs is well below the 20% estimate that is contained in PEF's 1994 storm study.²⁹

**II. The 2002 Stipulation and Settlement Provides the
Best Method for Sharing the Cost of the Hurricanes
Issues 14 - 19**

It quickly becomes evident to the practiced observer why PEF has rejected the historic base rate approach. If it uses the base rate approach, it will lose the excessive 2004 profits hoped for because in 2002 it agreed in the Stipulation and Settlement that it wouldn't seek a base rate increase unless the after-tax return on equity falls below 10%. Progress's request to establish a "Storm Cost Recovery Clause" is nothing more than an attempt to do an end run around its Stipulation and Settlement and to do it in a manner that is contrary to past Commission practice. Under the Stipulation and Settlement, Progress agreed not to seek an increase in its base rates and charges, including interim rate increases, that would take effect prior to December 31, 2005. As paragraph 7 of the Stipulation and Settlement made clear, PEF could only seek to amend its base rates if its earnings fell below a 10% ROE as reported on a Commission adjusted or pro-forma basis on PEF monthly earnings surveillance report.

The language of the Commission's orders and the Commission's rule on the storm reserve clearly demonstrate that storm damage expenses are part of base rates. Order No. PSC-03-0918-FOF-EI³⁰, established the storm damage reserve for Florida Power and Light. In that Order, the Commission acknowledged that hurricane-related expenses were included in base rates and, therefore, declined to create a 100% pass through mechanism such as the clause Progress proposes in this case.³¹ Order No. PSC-93-1522-FOF-EI, which approved the creation

²⁹ Exhibit No. 42. See page 3 and Exhibit 4 to the study.

³⁰ Order No. PSC-93-0918-FOF-EI, supra.

³¹ Id.

of a storm reserve fund for PEF, noted that PEF was collecting for transmission and distribution property damage in its base rates.³² In addition, Rule 25-6.0143, Florida Administrative Code, governs the treatment of storm-related costs, and provides that balances in these storm accounts are to be evaluated at the time of a rate proceeding and adjusted as necessary, while permitting a utility to petition this Commission for a change in the provision level and accrual rate outside of a rate proceeding.

Under the Stipulation and Settlement, PEF agreed not to seek an increase in base rates that would be effective before January 1, 2006; however, PEF is attempting to do what it promised not to do by coming in through the back door via its proposed Storm Cost Recovery Clause. The end result is the same as a base rate increase. Nevertheless, the Commission has at its disposal several methodologies for dealing with PEF's storm damages that are consistent with the terms of the Stipulation and Settlement.

FIPUG recommends a shared risk approach that provides protection for both PEF and its customers from undue hardship as a result of the storms. The matter should be looked upon as a base rate proceeding. PEF should bear all storm expenses to the point that its earnings fall to a 10% ROE, with the remainder being borne by the ratepayers.³³ In recognition that this is a base rate case, instead of using a cost recovery clause to collect the storm damage costs, the Commission should use a temporary adjustment to base rates by creating a storm damage base rate rider to allow recovery of the ratepayers fair share of the costs over a two year period.

FIPUG's approach comports with the action taken by the Commission in the past whereby PEF's predecessor³⁴ and Gulf Power³⁵ applied excess earnings to reduce storm damage

³² Order No. PSC-93-1522-FOF-EI, supra.

³³ Tr. 768-770, 777.

³⁴ Order No. PSC-94-0852-FOF-EI, supra.

³⁵ Order No. PSC-96-0023-FOF-EI, supra.

expense. Further, FIPUG's proposal conforms to the Stipulation and Settlement that allowed PEF's earnings to rise without restraint subject only to a sharing mechanism that is generous to PEF. The Stipulation and Settlement allowed PEF to keep the benefits provided by the merger with Carolina Power and Light. If PEF was able to reduce expenses it could reap the benefit of new efficiencies created by the merger, irrespective of the fact that its return on equity blossomed. The Stipulation and Settlement also provided a safety net in the event some unforeseen circumstance, "wilted the merger rose."

Further, it should be noted that the Stipulation and Settlement contains a safety net that protects PEF from losses that would drive earnings below 10%. A 10% after tax return is generous in today's market,³⁶ and amounts to a 16.2% return on equity before taxes. This is a return over which most industries would salivate. But it is made even better because by consolidating its return with its parent holding company, PEF is able to collect taxes from its electric customers that it doesn't have to pay.

In addition, FIPUG also recommends a variation on the risk sharing approach. For 2004, the Commission should require PEF to book the amount of storm damage expense to bring its after tax return on equity to 10%. In 2005, the Commission should allow that return to increase to the 12.5% return authorized in 1994,³⁷ with excess earnings applied to reduce the storm damage costs. For 2006, PEF would be allowed to earn the return the Commission finds to be proper in the pending rate case.

III. The Proper Rate Design For Demand Metered Customers **Issue 22**

Mr. Portuondo's Exhibit 25 sets out the storm cost attributable to each customer class. A major part of the costs are demand-related. In Exhibit 25, he allocates the costs to each class

³⁶ Tr. 604.

³⁷ Order No. PSC-94-0852-FOF-EI, supra.

of customer and then converts the cost from a demand charge to a kWh charge. It is patently clear from his exhibit that the kWh charges he sets are unduly discriminatory. For instance, on page 27 of Exhibit 25 (05 Proj p4) he determines that for 2005 the storm cost that should be allocated to IS-1 transmission customers is \$135,014. He concludes that these customers will consume 442,186 mWh in 2005. He proposes to apply a \$.205/ kWh charge to these customers. As a result of using Mr. Portuondo's methodology, these customers would be charged \$906,481 instead of their fairly allocated \$135,014. The disparity is not as great for the commercial demand customers, but the same theory applies. The conversion to kWh is not necessary. It is a demand cost and should be covered by a demand charge to match the charge to the costs. The proper rate design methodology is discussed by FIPUG witness Sheree Brown at Tr. 771-773, and is detailed in Exhibit No. 40. The Commission should utilize Ms. Brown's methodology, adjusting for any changes in the amount of cost recovery approved by the Commission.

CONCLUSION

The Commission shouldn't put up with PEF's "customer recovery and profit" proposal. It should follow the rationale for dealing with storm damage visualized in 1988 when the storm damage rule was adopted, the rationale of the previous storm damage orders that provided a risk sharing approach and also the rationale of the negotiated settlement agreement that settled the 2002 PEF rate case after all the evidence was filed. PEF shouldn't be allowed to reap the benefits of the agreement while avoiding its obligations.

POST-HEARING STATEMENT OF ISSUES AND POSITIONS

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?

FIPUG: PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred.

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?**

FIPUG: PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred.

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

FIPUG: PEF should stop charging such costs to the storm damage reserve effective January 1, 2005, or at the conclusion of storm restoration activities, whichever is sooner.

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?**

FIPUG: PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred.

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?**

FIPUG: PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred.

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?**

FIPUG: PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred.

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?**

FIPUG: PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred.

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?**

FIPUG: PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred.

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

FIPUG: PEF should not charge uncollectible expense to the storm damage reserve

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?**

FIPUG: 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)**

FIPUG: PEF's storm-related costs should be limited to those that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred.

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?**

FIPUG: The appropriate amount of storm-related costs to be charged against the storm damage reserve should reflect only those costs that are incremental to the level of normal operating and maintenance expenses that would have otherwise been incurred.

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?

FIPUG: Yes. The Commission should recognize PEF's obligations under the Stipulation and Settlement, as well as a fair and equitable balance of PEF and ratepayer interests. This can be accomplished by requiring PEF to expense that portion of the storm damage costs that would reduce its after-tax return on equity for 2004 to 10%. The remainder could be recovered through a short-term base rate rider with interest on the unamortized net-of-tax balance.

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?

FIPUG: Yes. As discussed in the testimony of Sheree L. Brown, ordering PEF to immediately expense \$142.7 million, and limiting the amount to be recovered from customers to \$121.8 million, will result in a fair and equitable resolution of the issues.

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

FIPUG: \$121.8 million total system, with \$115.9 million recoverable from retail ratepayers.

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?

FIPUG: The storm damage account should be credited each month with the actual costs recovered from ratepayers.

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? (This issue was partially stipulated as a Category 1 Stipulation, Number 3)

FIPUG: Each month, PEF should calculate interest on outstanding net-of-tax balance of the storm damage account, which shall be the outstanding balance of the storm damage account less 38.575% taxes, consistent with the testimony and exhibits of Sheree L. Brown.

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

FIPUG: Such costs should be collected as a separately stated charge on customer's bills for the period of recovery.

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

FIPUG: For the purposes of GSD, CS and IS rates, such costs should be recovered through a demand charge consistent with the testimony and exhibits of Sheree L. Brown.

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?**

FIPUG: The February 28, 1994 study and Order No. 94-0852-FOF-EI are not dispositive of issues regarding the manner in which PEF should account for the storm-related costs in this proceeding. In the Order, the Commission found only that the amount of PEF's annual accrual to the storm fund should be increased. It made no findings regarding PEF's study, and did not prejudge cost recovery from PEF's ratepayers under the "self-insurance" mechanism.

ISSUE 27: **Should the docket be closed?**

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

s/ Timothy J. Perry

John W. McWhirter
McWhirter, Reeves, Davidson & Arnold, P.A.
400 North Tampa Street, Suite 2450
Tampa, Florida 33602
Telephone: (813) 224-0866
Telecopier: (813) 221-1854
jmcwhirter@mac-law.com

Timothy J. Perry
McWhirter, Reeves, Davidson & Arnold, P.A.
117 South Gadsden Street
Tallahassee, Florida 32301
(850) 222-2525 (telephone)
(850) 222-5606 (fax)
tperry@mac-law.com

Attorneys for the Florida Industrial Power Users Group

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Florida Industrial Power Users Group's Post-Hearing Brief and Statement of Issues and Positions has been furnished by e-mail and U.S. Mail this 26th day of April 2005, to the following:

Jennifer Brubaker
Jennifer Rodan
Florida Public Service Commission
Division of Legal Services
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

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

Gary L. Sasso
James Michael Walls
John T. Burnett
Carlton Fields, P.A.
4221 W. Boy Scout Boulevard
Tampa, Florida 33607

Harold A. McLean
Joseph A. McGlothlin
Patricia Christensen
Office of the Public Counsel
111 West Madison Street
Room 812
Tallahassee, Florida 32399

Michael B. Twomey
Post Office Box 5256
Tallahassee, Florida 32314-5256

R. Scheffel Wright
Landers & Parsons
P.O. Box 271
Tallahassee, FL 32302

s/ Timothy J. Perry
Timothy J. Perry