

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

On re: Petition for rate increase by
Progress Energy Florida, Inc.

Docket No. 050078

Submitted for filing:
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**DIRECT TESTIMONY OF
JEFF LYASH**

ON BEHALF OF PROGRESS ENERGY FLORIDA

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**DIRECT TESTIMONY OF
JEFF LYASH**

1 I. **Introduction and Summary.**

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

3 A. My name is Jeff Lyash. My business address is 100 Central Avenue, St. Petersburg,
4 Florida 33701.

5
6 Q. **By whom are you employed and in what capacity?**

7 A. I am employed by Progress Energy Florida, Inc. ("Progress Energy" or the "Company")
8 I am Senior Vice President of Energy Delivery-Florida. In this role, I have direct
9 responsibility for all energy distribution activities in Florida. In addition, I am
10 responsible for setting priorities for and coordinating all aspects of energy transmission,
11 distribution, and customer service to ensure that we deliver a quality product to our
12 Florida customers.

13
14 Q. **Please describe your educational background and professional experience.**

15 A. I graduated with a bachelor's degree in mechanical engineering from Drexel University
16 in 1984. Prior to joining Progress Energy, I worked with the Nuclear Regulatory
17 Commission in a number of capacities. In 1993, I joined Progress Energy, and spent
18 eight years at the Brunswick Nuclear Plant in Southport, North Carolina, ultimately
19 becoming Director of Site Operations. In January 2002, I assumed the position of Vice
20 President of Transmission/Energy Delivery in the Carolinas. On November 1, 2003, I

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

3
4 **Q. What is the purpose of your direct testimony?**

5 A. I will summarize recent operational improvements in Energy Delivery realized primarily
6 as a result of the merger and the Commitment to Excellence program. I will also explain
7 our plans for the future as we continue striving to deliver the reliable service our
8 customers expect at a competitive cost.

9
10 **Q. Please summarize your testimony.**

11 A. Energy Delivery has emerged from the merger a better managed, more efficient and
12 stronger business. We have reinvested cost savings from the merger, such as those
13 realized through the combination of functions and system platforms, into every area of
14 our business, driving visible improvements for customers. We have emphasized and
15 strengthened satisfaction among our employees and have built a culture increasingly
16 focused on productivity and continuous improvement. We have invested in our
17 employees and our systems and have achieved significant improvements in safety,
18 reliability, and customer service. At the same time we have reduced our residential base
19 rates by 9.25% (as much as sixteen (16) percent for the typical 1,000 Kwh customer.).

20 Our plan for the future is to maintain and improve upon the high quality service
21 and reliability we currently provide our customers. We have the management teams and
22 business processes in place to drive these results provided that we obtain the reasonable
23 rates necessary to achieve them. We will continue to invest in our distribution,
24 transmission, and customer service systems in a focused way that prioritizes programs

1 delivering the greatest value at the most reasonable cost. We will also continue to look
2 for ways to use new technology to provide our customers with the service they desire.
3 Our customers' sophistication is growing, and as it does, they require more and more
4 reliable power to meet their needs. We believe our plan represents the best way to meet
5 these needs at a reasonable cost.
6

7 **II. Overview of Energy Delivery.**

8 **Q. What is the function of Energy Delivery within Progress Energy Florida?**

9 A. Energy Delivery is broadly responsible for all aspects of power delivery from the
10 generation source to our customers' premise. This involves both the transmission and
11 distribution delivery systems, including the management, operation and maintenance of,
12 and capital improvements to, both systems. In addition, it involves the customer service
13 functions that handle customer inquiries and provide information to our customers
14 regarding their service. The Company's transmission system includes over 4,700 circuit
15 miles of transmission lines, over 90 transmission substations, and the associated fixtures
16 and equipment. Likewise, the Company's distribution system includes about 25,000
17 circuit miles, over 275 distribution substations, and the related fixtures and equipment.
18 Within both systems we also have the vehicles, equipment, and linemen necessary for
19 operation and maintenance. To handle customer inquiries and issues, we operate two
20 state-of-the-art customer service centers in Clearwater and Lake Mary. With these
21 facilities, the Company currently delivers power to about 1.5 million customers over
22 20,000 square miles in approximately 35 of the state's 67 counties.
23

24 **Q. How would you describe the current status of Energy Delivery?**

1 A. Energy Delivery has made significant management and operational improvements in the
2 areas of transmission, distribution, and customer service and currently provides strong
3 performance for customers. We have achieved these results in large part due to benefits
4 flowing from the merger. For example, we have taken advantage of opportunities to
5 eliminate duplicate functions, reduced costs to develop, operate, and maintain duplicate
6 systems, expanded management and technical resources, and reinvested in our
7 transmission, distribution, and customer service systems.

8
9 **Q. What benefits did you obtain from the merger in Energy Delivery?**

10 A. We've been able to reduce costs and improve performance through such efforts as the
11 combination of duplicate functions and systems, the application of increased purchasing
12 power, and the application of best practices. Examples of duplicate functions which have
13 been combined include system engineering and information systems development,
14 maintenance, and support. By driving ever-increasing consistency in our underlying
15 systems and processes, we've been able to consolidate increasing amounts of support
16 resources and have been able to realize the benefits of interoperability in the field. In
17 times of crisis, this ability to shift personnel and technology resources from one
18 jurisdiction to another with virtually no learning curve or down time becomes particularly
19 beneficial. As an example, the implementation of a common radio system in both Florida
20 and the Carolinas allowed us to transition additional crews almost seamlessly during the
21 2004 hurricanes. Similarly, the implementation of a common purchasing system in both
22 jurisdictions allowed us to much more efficiently secure the extreme amount of material
23 and equipment needed to respond to those hurricanes. Beyond this, adopting common
24 platforms has enabled the faster and more trouble-free implementation of process

1 changes. As an example, we improved our ETR (Estimated Restoration Times)
2 procedures in 2002 and 2003 with a high level of success building on experience gained
3 in the Carolinas a few years earlier. Our approximate doubling of purchasing power has
4 provided significant benefits as well. Not only have we realized savings from combining
5 the needs of both jurisdictions, but we've driven greater consistency in our engineering
6 specifications, reduced the number of items stocked, and thereby reduced inventory
7 levels. Finally, we've realized significant benefits from the application of best practices.
8 One example of a best practice which has improved our Florida culture and operations is
9 the expansion of performance measurement below the system level, right down to the
10 regional and operating center levels. This has brought performance measurement closer
11 to our employees' line of sight and has strengthened the link between their individual
12 contributions and our success for customers. This cultural shift has been central to the
13 progress we've made in many areas of our operations.

14
15 **Q. What other improvements have been made in Energy Delivery?**

16 A. We've made improvements in almost all areas of Energy Delivery. First, we've
17 significantly improved employee morale. As you might expect, the uncertainty and
18 change that comes with a merger had a negative effect on morale. We sought to renew
19 our employees' focus on excellence and improve their morale by challenging them with
20 the Commitment to Excellence. Our employees accepted the challenge, focused their
21 efforts on the improvements in performance that we sought to obtain, and achieved them.
22 As a result, morale and performance have improved and we have built a foundation for
23 our future plans. We also renewed our commitment to safety as part of the Commitment
24 to Excellence program. Our employees are our most valuable resource and making safety

1 a priority reinforced their value to the Company. As a result of constant focus on
2 improved safety, we reduced our injury rate by over 50%, improving to the brink of the
3 top quartile in reported OSHA injury rates in 2004 among our peer utilities. In the area
4 of reliability, we made a commitment to achieve a System Average Interruption Duration
5 Index ("SAIDI") of 80 minutes by 2004 as part of our settlement of our last base rate
6 proceeding. This represents a twenty (20) percent reduction from our 2000 SAIDI of
7 100.6 and was a major focus of our Commitment to Excellence program. I am very
8 proud to say that we not only met but exceeded this level of performance. We improved
9 our SAIDI each year and in 2004 achieved a SAIDI of 77, representing a twenty-three
10 (23) percent reduction. We also improved in other industry distribution and transmission
11 reliability measures. These improvements, and the specific programs or projects
12 implemented to achieve them, are discussed in more detail in the testimony of David
13 McDonald, Ray DeSouza, and Dale Oliver. In sum, however, our increasingly engaged
14 and productive workforce, gains in efficiency and productivity brought about through the
15 merger, and increased investment in our transmission and distribution systems paid off
16 with significant improvements in our operations.

17
18 **Q. Have the improvements in Energy Delivery benefited your customers?**

19 **A.** Yes, they have. Customers have seen improvements in price, service, and reliability. As
20 a result of the settlement of our last base rate proceeding we lowered our base residential
21 rates to our customers by 9.25%, up to sixteen (16) percent for our typical 1,000 Kwh
22 customer. Our typical residential price improved from thirty-third in 2001 to eleventh at
23 the end of 2004 out of fifty-one electric utilities in the State of Florida. This base rate
24 reduction for our customers is even more significant when you consider that we have not

1 increased our base rates since 1993. We've also improved our customer service, moving
2 from third quartile in 2001 to top quartile in 2004, based on our performance in the
3 customer service component of the nationally recognized JD Power & Associates 2004
4 Electric Utility Residential Customer Satisfaction Study. In fact, our score places us
5 among the top ten utilities in the country and first in the Southern Region. In terms of
6 reliability, the improvements that we've made have provided our customers with a source
7 of energy that is now within the top quartile of our peer utilities, based on most recent
8 benchmarks.

9
10 **Q. Is Energy Delivery positioned to continue to deliver quality service to customers at a**
11 **reasonable cost?**

12 A. Yes. Energy Delivery has the critical elements in place to provide increasingly efficient,
13 high quality service at a reasonable cost. As I've described, we have strengthened our
14 employee morale, productivity and culture as a foundation for continued improvement in
15 the business. We've taken advantage of cost efficiencies and the application of best
16 practices from our merger. We've enhanced our use of performance measurement
17 metrics farther down into the organization and have linked these measures to our pay at
18 all levels to ensure continued focus on results that matter for customers. In addition,
19 we've increased our emphasis on benchmarking performance externally and internally to
20 identify opportunities for improvement. We've also worked to improve our planning,
21 prioritization, and budgeting processes, which will be described in further detail in the
22 testimony of David McDonald, Ray DeSouza, and Dale Oliver. In combination, these
23 elements have produced the improved operational performance that I've already
24 summarized above as well as cost efficiencies throughout our business. For example,

1 since 2002 we have achieved top quartile performance in the distribution cost to install
2 new service (before CIAC reimbursement) and lowered our distribution O&M and capital
3 maintenance cost from \$120 per customer to \$102 per customer, within the second
4 quartile of our peer utilities based on most recent benchmarks. The positive momentum
5 that we've achieved in so many areas of our business shows that these elements are
6 working to produce results. We will continue to push for even better performance as we
7 strive to provide excellent reliability and service for our customers at a competitive cost.

8 In fact, the Company is currently undertaking a complete review of its
9 organizational structure in order to identify areas where further efficiencies can be
10 achieved. This initiative, which will be implemented throughout 2005 and will include
11 employee incentives for voluntary early retirement, is expected to produce almost \$20
12 million in savings for Progress Energy Florida in 2006, including significant reductions
13 in the areas of distribution, transmission, and customer service. These savings have been
14 incorporated into our rate request.

15
16 **Q. Can you provide us with an example of another way in which you have delivered**
17 **reliable service to your customers?**

18 A. Yes, I can. During 2004 our Company faced the most catastrophic hurricane season on
19 record for the State of Florida. Despite this unprecedented storm season we were well
20 prepared because we had already adopted as best practices aspects of the storm plans
21 developed in the Carolinas by our sister company from more recent hurricane and major
22 storm experience there. We continued to develop our storm plan and improve upon our
23 response with each passing storm in 2004 as well. Having a sister utility in the Carolinas
24 also provided us with the ability to quickly call upon additional resources as they were

1 needed to respond to and recover from the series of 2004 hurricanes that impacted our
2 service territory and our customers.

3 Hurricane Charley was a 145 mile per hour hurricane when it made landfall that
4 left 502,000 of our customers without power at the peak of the hurricane. About 700
5 miles of transmission lines and 83 substations were put out of service in addition to the
6 widespread damage caused by the hurricane. We implemented our storm plan 72 hours
7 in advance of the hurricane making landfall, and coordinated the work of our own
8 employees and over 5,000 outside line and tree crews, to respond to the hurricane and
9 restore power as quickly and as safely as possible for the benefit of our customers and the
10 public. From the moment the hurricane hit our service territory we were able to begin
11 our restoration planning process so that as soon as the winds had died down to a safe
12 level we had crews out addressing priority areas to restore service to the most customers
13 possible and the most critical customers as soon as practicable. As a result of the
14 implementation of our storm plan, we were able to restore power to all customers who
15 were able to receive power within nine (9) days.

16 Our response to Hurricane Frances was a similar success story. This slow moving
17 hurricane racked our service territory with 100 mile per hour winds for almost a full day.
18 It also impacted our entire service territory, leaving 832,898 customers without service at
19 its peak, and putting 1,131 miles of transmission line and 105 substations out of service.
20 We coordinated the work of our internal employees and 4,600 outside line and tree crews
21 and further improved upon our storm response efforts from the prior hurricane. For
22 example, we learned that we needed more staging sites set up closer to the areas impacted
23 with necessary materials and supplies for the restoration crews and we increased our use
24 of helicopter cranes to quickly move needed material to work sites. These improvements,

1 among others, in our storm response efforts were incorporated into our storm plan for
2 Hurricane Frances. As a result of our storm preparation and response efforts, we were
3 able to restore power to all customers who were able to receive power within six (6) days.

4 We have a similar story to tell for Hurricanes Ivan and Jeanne. Although
5 Hurricane Ivan ultimately did not directly impact our service territory, we had to plan for
6 the fact that it might have done so based on national weather service projections. In any
7 event, we were in position to quickly restore power as a result of Hurricane Ivan to all
8 customers who could receive power in two (2) days. Hurricane Jeanne was another
9 major storm that did impact us directly, leaving 722,012 customers without power at its
10 peak, and putting 853 miles of transmission line and 86 substations out of service. We
11 again implemented our storm plan and coordinated the restoration work of 3,687 outside
12 line and tree crews, in addition to our internal crews and employees, to restore power for
13 all customers able to receive power within five (5) days.

14 The performance of our Customer Service Center during the hurricanes is also
15 noteworthy. Our Customer Service Center employees and other employees who helped
16 staff the phones and computers worked tirelessly during the course of the four hurricanes
17 taking customer calls, identifying outages and reporting them to the managers responsible
18 for the field crews, and keeping our customers informed on hurricane precautions and
19 preparations before, during, and after the storms and our restoration efforts following the
20 storms. These employees and contractors who manned the phones and computers
21 handled 465,670 customer outage calls for Hurricane Charley, 929,228 customer outage
22 calls for Hurricane Frances, 55,700 customer outage calls for Hurricane Ivan, and
23 741,920 customer outage calls for Hurricane Jeanne.

1 The impact of four successive hurricanes in 2004 was severe with widespread
2 damage and disruption for our business and our customers. Despite the widespread
3 damage and disruption of four hurricanes we were able to quickly and safely restore
4 power following each storm. Our storm plan proved to be an effective tool in each
5 hurricane and I believe our planning and restoration efforts during and following each
6 storm were a success. We proved that we can meet our customers' and the public's need
7 for an essential service in a time of crisis. Our ability to promptly and safely prepare for,
8 respond to, and recover from these hurricanes has been recognized in our industry with
9 the Edison Electric Institute "Emergency Response Award" in 2004.

10
11 **III. Energy Delivery's Future Business Plan.**

12 **Q. What is the Energy Delivery plan for the future?**

13 We plan to build on the momentum, raising the bar for our performance as we strive to
14 continue improving service and reliability for our customers. I will provide an overview
15 of our plans in distribution, transmission, and customer service, while other witnesses in
16 this proceeding will provide more detail on our plans in each area. In every area,
17 however, we remain committed to maintaining the gains we have made in safety and
18 employee satisfaction. We believe that safety is significant not only because employees
19 are our most important resource, but also because we believe that safety improvement
20 forces the work practices and focus necessary for excellence in other areas of our
21 business. As well, we've focused on measuring and improving employee satisfaction
22 because we believe it translates directly into better performance and happier customers.

- 23 • **Distribution.** We've worked diligently over the past several years to improve our overall
24 system reliability, as measured by SAIDI, to a level that is within the top quartile of our

1 peer utilities based on most recent benchmarks. Now that we have achieved this level of
2 performance, we believe that we can bring about the most significant improvements in
3 customer satisfaction by maintaining our overall system reliability within its current
4 range while we broaden our focus from the mitigation of outages to the improvement in
5 power quality by preventing faults from occurring in the first place. In addition, now that
6 we have our system average performance at favorable levels, we intend to focus
7 additional attention on those areas that lag behind system average performance. We
8 believe this balancing and broadening of priorities will provide the most valuable benefits
9 for our customers at the lowest cost.

- 10 • **Transmission.** We have made significant gains in transmission reliability as a result of
11 our investments in capital and O&M in the transmission system. We plan to continue to
12 improve our reliability performance by improving the material condition of our system
13 and modernizing equipment and designs. We will focus on improving the ability of our
14 system to withstand the effects of adverse weather, such as lightning and wind, and will
15 continue working to prevent faults due to contacts with animals. As in the past, we will
16 take a balanced and prioritized approach to deliver the maximum reliability benefits at
17 the least cost.
- 18 • **Customer Service.** Likewise, we plan to maintain top quartile customer service. In
19 order to accomplish this, we will continue listening to our customers and better
20 understanding their needs and wants. A major focus going forward will be on automation
21 and technology to meet our customers' demands for more prompt service, more
22 information, and more alternatives. Not only will additional automation improve cost
23 effectiveness, but it will result in real benefits for customers. As an example, our mobile
24 meter reading program, which will enable Progress Energy to read meters wirelessly by

1 driving past a home in a vehicle that includes a computer and radio receiver, will
2 dramatically reduce our operating costs while at the same time improving accuracy,
3 reducing the number of estimated bills, and providing a less-intrusive meter reading
4 process for customers. Beyond this, the addition of more robust internet tools will give
5 customers an easy and quick way to resolve an increasing variety of issues on their own
6 schedule, whether in the middle of the day or night.
7

8 **Q. What is the cost of your Energy Delivery plan and is it reasonable?**

9 A. Our plan calls for continued investment in our distribution, transmission, and customer
10 service operations at a level sufficient to deliver the service and reliability our customers
11 expect. We propose total O&M expenditures of \$126.1 million in distribution, \$36.8
12 million in transmission, and \$44.9 million in customer accounts, customer service and
13 information, and sales expenses in 2006. We believe these costs are reasonable and
14 represent the right balance of price and operational benefits for our customers.
15 Improving service and reliability does have a price, since we cannot continue to drive
16 such improvements for customers without additional investment in our transmission,
17 distribution, and customer service operations. We have been diligent in our planning and
18 budgeting to ensure that we are identifying the right priorities to achieve our objectives.
19 We continue to benchmark our capital and O&M costs against the industry to make sure
20 that we are working efficiently. Our 2006 budget for Energy Delivery represents the
21 right balance of costs to achieve the benefits that our customers desire and demand.
22

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

24 A. Yes, it does.