BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 050078

Submitted for filing:
April 29, 2005

DIRECT TESTIMONY OF

DALE OLIVER, P.E.

On behalf of PROGRESS ENERGY FLORIDA

R. Alexander Glenn
James A. McGee
Progress Energy Service Company, LLC
Post Office Box 14042 (33733)
100 Central Avenue (33701)
St. Petersburg, Florida
Telephone: 727-820-5184
Facsimile: 727-820-5519

and

Gary L. Sasso
James Michael Walls
John T. Burnett
Carlton Fields
Post Office Box 3239
4221 West Boy Scout Boulevard
Tampa, Florida 32607-5736

Attorneys for
PROGRESS ENERGY FLORIDA

DIRECT TESTIMONY OF

DALE OLIVER

I. Introduction and Summary.

Q. Please state your name and business address.

A. My name is Dale Oliver. My business address is 452 E. Crown Point Road, Winter Garden, Florida 34787.

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

A. I am the Vice President for Progress Energy Florida, Inc.'s ("PEF" or the "Company") South Central Region.

Q. What are the duties and responsibilities of your position with Progress Energy Florida?

A. In this position, I oversee the Company's distribution operations within one of PEF's four geographic regions. The South Central Region roughly covers the area including Highlands, Hardee, Polk, Osceola and Orange counties. Prior to assuming this position in May 2004, I was PEF's Director of Commitment to Excellence ("CTE") with responsibility for overall management of the program, but with particular emphasis in the areas of Transmission and Distribution.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor's degree in Electrical Engineering from Georgia Tech in 1981 and an MBA from Georgia State University in 2001. Prior to assuming my role as Director of Commitment to Excellence for PEF in October 2002, I was the Director of

Transmission Engineering at PEF, which focused on the engineering aspects of substation, transmission line, and relay design. Prior to joining the Company in January 2001, I held a number of supervisory and management positions in the transmission maintenance and operations area for The Southern Company (Georgia Power) in Atlanta, Georgia. I am a registered professional engineer in the states of Florida and Georgia.

Q. What is the purpose of your direct testimony?

A. I appear on behalf of PEF to discuss the Company's CTE program and to support the key initiatives that the Company completed as a part of this program. I will describe the CTE program and its development, how we managed the program, the initiatives we undertook, focusing on our transmission and distribution system initiatives, what we spent, and the results we achieved.

Q. Do you have any exhibits to your testimony?

A. Yes, I have prepared or supervised the preparation of the following exhibit to my direct testimony:

- Exhibit No. ___ (DO-1), a summary of CTE spending that shows spending for distribution, transmission, fleet and facilities programs, which represent substantially all of our incremental CTE funding.

This exhibit is true and accurate.

Q. Please summarize your testimony.

A. We successfully completed our Commitment to Excellence program, making significant improvements in several areas of our operations for employees and customers. For our employees, we improved safety, reduced the average age of our fleet, improved our facilities, and improved overall employee satisfaction. For our customers, we lowered our price and improved our service, reliability, and generation adequacy. Over the 2002 to 2004 period, PEF spent $123 million on a portfolio of CTE initiatives, with the vast majority of the funds designed to improve our distribution and transmission performance. These initiatives resulted in improvement over a broad range of reliability performance metrics and, most significantly, resulted in a reduction of our distribution SAIDI to 77, allowing us to meet our commitment of SAIDI 80 or below by 2004.

II. Commitment to Excellence (CTE).

Q. Please describe PEF's CTE program and its purpose.

A. CTE was a three-year program that we implemented from 2002 through 2004 to make specific and measurable improvements to, among other things, our transmission and distribution systems. The Company undertook CTE to achieve top-quartile performance in major areas including safety, price, service, and reliability, while increasing generation reserves for our customers. CTE was also designed to improve employee satisfaction and to focus our employees after the merger between Florida Progress Corporation and Carolina Power & Light Company on strengthening the Company's culture of continuous improvement.

Q. Please generally describe the major areas that the CTE program addressed?

A. CTE was primarily designed to make improvements for employees and customers. From an employee perspective, CTE addressed several areas designed to engage people and drive performance. From a customer perspective, CTE addressed several areas to improve price, service, and reliability. CTE transmission and distribution projects were separately funded over and above our normal base capital and O&M budgets.

Q. Was CTE a success?

A. Yes. PEF achieved outstanding results. Through CTE, we made significant improvements to many key aspects of our business:

Culture. Following the merger, we strengthened our corporate culture to one that is increasingly performance-oriented and focused on continuous improvement. One metric that best captures the elements of this change is our improving employee satisfaction, even amid an atmosphere of increasing pressure for performance. We improved employee satisfaction significantly, as measured by our Employee Opinion Survey, since our 2001 post-merger baseline. This increasingly satisfied and engaged workforce underlies, and has in large part, enabled PEF to achieve the other CTE goals.

Safety. We have improved our OSHA recorded incident rate to near first quartile relative to our peer utilities based on most recent benchmark data. This is significant because the safety of our employees is our most important goal and because we believe that safety improvements drive excellence in other areas of our business.

Price. As discussed in Bill Habermeyer's testimony, we made significant progress in the reduction of our residential price per 1,000 kWh in comparison to other electric utilities in Florida. By the end of our CTE program in December, 2004 our price of $89.11 was ranked eleventh out of fifty-one Florida electric utilities versus $93.41 and a ranking of thirty-third in 2001, before CTE began. We are very proud of this relative reduction because it was made possible by a 9.25 percent drop in the base rate component of our residential price, and as much as a sixteen percent drop for the typical 1,000 Kwh residential customer, before the impact of increasing fuel costs. We understand that fuel increases may continue to put upward pressure on our overall price in 2005 and beyond and we are working diligently to mitigate this impact on our customers wherever possible.

Customer Service. Our performance in the area of customer service, as measured by the customer service component of the JD Power & Associates 2004 Electric Utility Residential Customer Satisfaction Study, has improved from third quartile in 2001 to first quartile in 2004. The work that we have undertaken to improve our service to customers and the results that we have achieved in this area are described in more detail in the testimony of Willette Morman-Perry.

Reliability. We successfully met and exceeded our commitment to reduce our 2004 System Average Interruption Duration Index ("SAIDI") to 80 minutes. Our actual performance for 2004 was 77 minutes, representing a 23% reduction from our level of 100.6 minutes in 2000. This represents top-quartile performance among our peer utilities as measured by 2003 benchmarks and is

likely to fall within the top quartile when comparison data from 2004 is available. My involvement as Director of CTE was primarily focused in this area and I will discuss these results, along with our favorable transmission reliability results, in more detail in the sections that follow.

Generation Reserve Margins. Since 2002 we increased the generation reserve margin that we maintain for our customers from 15% to 20%. Along with the other Peninsular Florida Investor Owned Utilities ("IOUs"), PEF committed to achieve this increased reserve margin by the summer of 2004. We actually achieved this level approximately six months early in December, 2003, with the commencement of operations at our Hines 2 combined cycle power plant in Polk County.

Fleet & Facilities. In the last four years, we have added new service trucks (reducing the age of our fleet), improved the consistency of vehicles and associated maintenance programs, and added four new state-of-the-art operating centers. These improvements have helped our employees better serve customers while boosting employee morale.

III. CTE Distribution and Transmission Initiatives.

Q. Please describe how the CTE program was managed.

A. The CTE program was launched by Bill Habermeyer at the beginning of 2002 with a portfolio of initiatives spanning employee satisfaction, safety, price, service, reliability, and generation. Given that a significant portion of the CTE budget addressed transmission and distribution reliability initiatives, shortly after the launch

of CTE I was appointed Director of Commitment to Excellence to specifically manage the program.

As Director of CTE, I ensured that the transmission and distribution reliability programs that we had chosen were implemented on time and on budget. The transmission projects were managed from a system perspective to maximize the effects of the network, while the distribution projects were managed at a regional level due to the volume of the devices and programs being implemented. As the overall project manager, I and my staff controlled budgeted dollars to complete the CTE initiatives and managed internal and external resources to schedule and complete the work. We monitored program completion, tracked spending, and measured program results. In addition, we managed ongoing changes to priorities and budgets when needed to meet our goals.

The initial portfolio of distribution initiatives was developed under the direction of the Power Quality and Reliability ("PQ&R") Engineering organization. We continued to coordinate with PQ&R Engineering throughout the three years of CTE to ensure the optimum focus of our distribution initiatives and to monitor actual versus anticipated results from the CTE programs. The Transmission System Reliability and Power Quality ("SRPQ") organization provided a similar function for transmission.

Q. How were the individual initiatives that form CTE selected and developed?

A. We first identified clear performance goals that we wanted to achieve, and the metrics that we would use to measure our performance. We then selected a portfolio of initiatives to maximize our progress against those metrics at the least cost.

First, in the area of distribution, we began by developing a set of potential initiatives and quantifying the likely benefits and costs. To best optimize the resulting portfolio of initiatives, we developed statistical estimates, in the form of probability density functions, of the likelihood of outages on various devices, the likelihood that the proposed solution would successfully prevent or mitigate future outages, and the likely costs to implement the initiatives on each device. We utilized a statistical risk analysis approach to evaluate the variability of each of these assumptions in combination and the resulting implications for the optimal portfolio. By utilizing this approach, we were able to drive the maximum SAIDI reduction for a limited amount of resources. To our knowledge, this portfolio optimization of delivery reliability initiatives is the most sophisticated ever conducted in the industry. This assertion is based on our discussions with our peers at industry meetings, in particular the Edison Electric Institute (EEI) and the Southeastern Electric Exchange (SEE). Both of these groups hold regular meetings to discuss industry developments and technology changes, and serve as a forum to share best practices.

In transmission, our approach was similar but simplified due to the much smaller number of critical devices on a transmission system and greater working knowledge of their relative outage risks. Once again, we prioritized a set of initiatives to maximize achievement of selected performance metrics at the least cost, but in this case did so relying more on our working knowledge of the system than statistical optimization. Within each initiative, we generally targeted specific devices based on an assessment of outage risk and the degree of customer impact.

Throughout the process we continued to evaluate our priorities, the initiatives and results to assure that we were applying the right resources to achieve the best

results. Goals and budgets were set, approved, and tracked by management. In the case of our distribution programs, statistical optimization models were re-run at least annually to ensure that our portfolio of initiatives continued to be formulated for maximum results.

Q. What initiatives did PEF undertake in the area of Distribution?

A. Our distribution programs broadly fell within the categories of power quality and reliability improvements, system and maintenance improvements, and technology enhancements.

Power Quality & Reliability Initiatives. We designed these initiatives to improve our SAIDI primarily by improving the self-correcting capabilities of our system, further sectionalizing our system to minimize the number of customers impacted by faults, and improving our ability to detect faults. One of the major initiatives that we undertook to improve the self-correcting capabilities of our system was to enhance our fusing coordination schemes on critical feeders. This improved our system's ability to clear faults before momentary interruptions became sustained outages. To limit the number of customers impacted by outages, we added electronic reclosers to our system. These devices act to divide our circuits into smaller sections so that fewer customers are affected when problems do occur. In addition, we further sectionalized lines by installing additional fuses to reduce the average number of customers per fuse. In order to better detect potential faults before they occurred, we utilized infrared inspections. To more quickly locate and restore faults resulting in outages we installed faulted circuit indicators, which provide a bright flashing LED or remote indication to more quickly guide our patrolmen to the source of the problem.

Beyond these initiatives, we also undertook numerous other projects, including reconductoring lines, adding insulation to lines, and applying additional lightning protection equipment.

System Improvement & Maintenance Initiatives. These initiatives were designed to improve the condition of our distribution infrastructure and thereby reduce SAIDI. We conducted numerous visual inspections, taking steps to address and replace or repair equipment that either had an increased risk or an established pattern of causing customer outages. We performed extensive work, including the replacement of underground cable, transformers, and poles, and the implementation of additional vegetation management to reduce tree limb contacts with our lines.

Technology Enhancement Initiatives. In addition to installing new equipment, we leveraged existing and new technologies to make further operations and reliability improvements. These initiatives included the installation of mobile data computers in our service vehicles. This measure improved restoration performance and service order processing by allowing us to route orders and related information directly into our vehicles rather than using less efficient voice calls. In addition, we improved our geographic information system (GIS) database, improving our response time to events. In the area of system control, we added state-of-the-art microprocessor relays on selected feeders to enhance our ability to remotely control and monitor the system.

Q. What initiatives did PEF undertake in the area of Transmission?

A. In transmission, we identified and implemented initiatives addressing three broad categories: right-of-way management, equipment improvement, and substation enhancements.

Right-of-Way Management. We designed these initiatives to improve our transmission reliability performance through better management of our right-of-way. Among other things, we more aggressively addressed encroachment issues, cleared vegetation away from our lines, and applied herbicide to reduce future vegetation growth.

Line Improvements. Our line initiatives focused on improving the response of our system to lightning activity and reducing component failures. We first identified the lowest performing lines, taking into account customer impacts. We then inspected and, as warranted, replaced or refurbished transmission structures, including cross arms, wedge connectors and overhead ground wire. To better protect our lines against lightning, we improved the bonding and grounding on many transmission structures and installed additional lightning arresters. In addition, we piloted the use of microprocessor relays to better locate line faults in real time as a way to shorten the duration of an outage. To prevent contact with animals, which is a significant cause of outages, we installed more barriers and bird dishes in targeted areas. Finally, we installed motor operated switches to enhance the ability of our system to remotely sectionalize and minimize customer impact in the event of an outage.

Substation Enhancements. Our substation initiatives focused on improving the physical condition of our substations and related equipment, improving security access control, improving lightning protection, reducing contact with animals, and adding equipment for enhanced system information and flexibility. These efforts

included the inspection and replacement or refurbishment of breakers, batteries, bushings, arresters, and insulators. In addition, we renovated a number of substations to improve their performance and operability and repaired substation gates for better access security. We installed additional barriers around many substations to prevent animal contacts with our equipment and associated customer outages. We added digital fault recorders to pinpoint the location of faults along the system so that repair crews could be quickly directed to the source of the problem instead of patrolling an entire line, thus shortening the duration of transmission outages. We also purchased a mobile transformer to serve as a backup and provide temporary power for customers in the event of a substation failure within the system.

Q. What adjustments to the program were made during the CTE program and why?

A. Throughout our implementation of the CTE program, we monitored the effectiveness of the initiatives and made adjustments as changing circumstances warranted. During the CTE program, we continued to prioritize those initiatives that would produce the most significant system SAIDI reduction at the most reasonable cost. As a general rule, this philosophy guided us to prioritize mitigation programs, which would significantly impact SAIDI by reducing the duration or frequency of outages that did occur, as opposed to those targeted more toward the prevention of faults but offering a lesser impact on SAIDI.

Our assessment of project priorities matured as we gained experience in implementing the various projects and gathered performance data resulting from them. In some cases, we reallocated funding to initiatives that were producing better-than-

anticipated results from those that were showing less ability to achieve our goals. As examples, we elevated midpoint reclosers, fusing coordination, and the installation of sectionalizers to a more significant role in our overall program due to the excellent results that we were seeing from these initiatives.

Q. How much did the Company spend on CTE?

A. Our spending for CTE from 2002 through 2004 totaled $123.0 million. Of this amount, we spent $56.9 million on distribution-related projects, $37.2 million on transmission-related projects, $16.3 million on fleet services, and $12.6 million on facilities. Please see Exhibit No. ___ (DO-1) for a further breakdown of these amounts.

IV. CTE RESULTS.

Q. Please describe the distribution reliability results you achieved through CTE.

A. As I stated earlier, we improved our system SAIDI by 23% to 77 minutes from 2000 through 2004. By doing so, we met and exceeded our commitment to achieve a SAIDI of 80 minutes by the end of 2004 and achieved top-quartile performance among our peer utilities based on most recent benchmarks.

In addition to improvement in our top-line SAIDI results, we achieved consistent improvements in a broad range of reliability measures. The breadth of our improvement is highlighted by the Florida Public Service Commission's ("FPSC's") most recent "Review of Florida's Investor-Owned Electric Utilities' Distribution Reliability" report. This review of reliability by the FPSC covers the 4-year period from 2000 through 2003 and shows that PEF demonstrated meaningful improvement

in seven out of eight reliability metrics examined. The next closest company showed improvement in only four of these same eight metrics.

Accounting for our most recent 2004 results, and examining the period covered by CTE, our performance trends are also very favorable. From 2001, prior to the start of CTE, to 2004, PEF reduced its customer's average minutes of interruption ("SAIDI" – System Average Interruption Duration Index) from 89.7 to 77. Over the same time period, our average frequency of outages ("SAIFI" – System Average Interruption Frequency Index) dropped from 1.3 to 1.19. We reduced the average duration of our outages ("CAIDI" – Customer Average Interruption Duration Index) from 68.7 to 64.7 over the same time period. Our percentage of customers experiencing 5 or more interruptions ("CEMI5" – Customers Experiencing Multiple Interruptions) also dropped from 1.81 to 1.37.

Q. Please describe the transmission reliability results you achieved through CTE.

A. To best gauge the results of our transmission CTE initiatives, we developed, tracked, and in fact incorporated into our incentive compensation, a metric called the "Transmission Improvement Index." This performance indicator captures two main elements of transmission performance. First, it measured year-by-year improvement in line performance as measured by "FOHMY" (Forced Outages per One Hundred Miles of Line per Year) operations. Second, it measured year-by-year improvement in customer outage performance as measured by either "CMI" (Customer Minutes of Interruption) or the total number of outage events from relevant causes. We maximized our performance against annual targets for the Transmission Improvement

Index in total and for both of the underlying categories each year. In 2004 alone, these measures improved by 40% and 52%, respectively, over prior year performance.

Q. Are there any other comments you'd like to add about these performance improvements?

A. Yes, it is worth mentioning that the distribution and transmission reliability achievements outlined above are even more noteworthy when one considers the adverse weather conditions that we experienced during the CTE period, as measured by the number of lightning flashes striking our service territory. Relative to the preceding five-year average, representing the period from 1997 to 2001, lightning flashes experienced within PEF's service territory for the years 2002, 2003 and 2004 were up by 4%, 44% and 60%, respectively.

Q. Does this conclude your direct testimony?

A. Yes.

DOCKET NO. 050078
PROGRESS ENERGY FLORIDA
EXHIBIT NO. ___ (DO-1)

CTE Spending Summary
($ millions)

	2002			2003			2004			Total		
	Capital	O&M	Total	Capital	O&M	Total	Capital	O&M	Total	Capital	O&M	Total
Distribution												
Power Quality & Reliability Initiatives	7.1	0.1	7.2	10.3	0.8	11.1	7.6	0.0	7.6	25.0	0.9	25.9
System Improvement & Maintenance Initiatives	13.9	2.5	16.4	6.2	1.3	7.5	1.9	2.4	4.3	22.0	6.2	28.2
Technology Enhancement Initiatives	0.6	0.8	1.5	0.0	1.0	1.1	(0.0)	0.3	0.3	0.6	2.2	2.8
	21.7	3.4	25.1	16.5	3.2	19.7	9.4	2.7	12.1	47.6	9.3	56.9
Transmission												
Right of Way Initiatives	-	4.7	4.7	-	4.4	4.4	-	3.6	3.6	-	12.7	12.7
Line Initiatives	5.4	1.4	6.8	2.8	2.6	5.3	0.2	3.0	3.2	8.3	7.0	15.3
Substation Initiatives	2.5	1.8	4.3	1.0	1.3	2.3	2.5	0.1	2.5	6.0	3.1	9.1
	7.9	7.9	15.8	3.8	8.3	12.1	2.7	6.6	9.3	14.4	22.8	37.2
Fleet	15.2	-	15.2	-	-	-	1.1	-	1.1	16.3		16.3
Facilities	7.2	-	7.2	3.1	-	3.1	2.3	-	2.3	12.6	-	12.6
	52.0	11.3	63.3	23.4	11.5	34.9	15.5	9.3	24.8	90.9	32.1	123.0