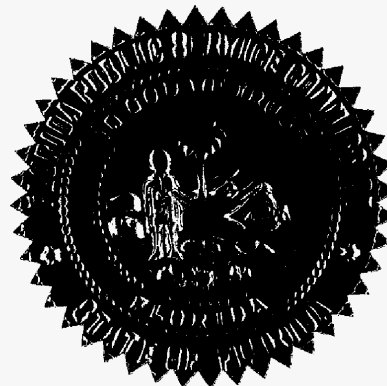


1   BEFORE THE  
2   FLORIDA PUBLIC SERVICE COMMISSION

3   DOCKET NO. 041272-EI

4   In the Matter of:

5   PETITION FOR APPROVAL OF STORM  
6   COST RECOVERY CLAUSE FOR RECOVERY  
7   OF EXTRAORDINARY EXPENDITURES  
8   RELATED TO HURRICANES CHARLEY,  
9   FRANCES, JEANNE, AND IVAN, BY  
10    PROGRESS ENERGY FLORIDA, INC.  
11    \_\_\_\_\_ /



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16

17    PROCEEDINGS:                            AGENDA CONFERENCE  
18    ITEM NO. 11

19    BEFORE:                                    CHAIRMAN BRAULIO L. BAEZ  
20    COMMISSIONER J. TERRY DEASON  
21    COMMISSIONER RUDOLPH "RUDY" BRADLEY  
22    COMMISSIONER LISA POLAK EDGAR

23    DATE:                                        Tuesday, June 21, 2005

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

  REPORTED BY:                            JANE FAUROT, RPR  
  Official FPSC Hearings Reporter  
  (850) 413-6732

DOCUMENT NUMBER-DATE

FLORIDA PUBLIC SERVICE COMMISSION

06065 JUN 27 05

FPSC-COMMISSION CLERK

1 PARTICIPATING:

2 JENNIFER RODAN, ESQUIRE, BART FLETCHER, JIM BREMAN,  
3 CONNIE KUMMER, ANDREW MAURYE, CHRISTINE ROMIG, JOHN SLEMKEWICZ,  
4 DAVID WHEELER, and MARSHALL WILLIS, representing the Florida  
5 Public Service Commission Staff.

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## P R O C E E D I N G S

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2 CHAIRMAN BAEZ: Call the agenda back to order.

3 Commissioners, we are on Item 11.

4 MR. FLETCHER: Good afternoon. Bart Fletcher,  
5 Commission Staff. Item 11 is staff's recommendation on  
6 Progress Energy Florida, Inc.'s petition for approval of a  
7 storm cost-recovery clause for recovery of extraordinary  
8 expenditures related to Hurricanes Charley, Frances, Jeanne and  
9 Ivan.

10 Staff has a modification to Issue 14 on Page 32 in  
11 the staff recommendation paragraph. The recommended  
12 storm-related cost should be changed to 271,476,895 on a retail  
13 basis, and 285,108,136 on a system basis. This change should  
14 also be made on Page 33 above the staff summary in the staff  
15 analysis section. This modification does not change any other  
16 part of staff's recommendation. This is a post-hearing  
17 recommendation, and participation is limited to Commissioners  
18 and staff. Staff is prepared to go issue-by-issue and answer  
19 any questions the Commission may have.

20 CHAIRMAN BAEZ: Thank you, Mr. Fletcher.

21 Commissioners, we can go issue-by-issue, and I'm  
22 showing Issue 1 withdrawn.

23 Issue 2.

24 COMMISSIONER BRADLEY: What page is Issue 2 on?

25 CHAIRMAN BAEZ: That would be Page 6 of your

1 recommendation.

2 COMMISSIONER BRADLEY: Okay.

3 CHAIRMAN BAEZ: Questions?

4 COMMISSIONER EDGAR: Yes.

5 CHAIRMAN BAEZ: Commissioner Edgar.

6 COMMISSIONER EDGAR: Thank you.

7 Could you go over for me, and I'm going to have the  
8 same question on Issue 2 and Issue 3, but the difference in the  
9 amounts from what Progress requested and what the staff  
10 recommendation is.

11 MR. FLETCHER: Sure. If you look in the staff  
12 recommendation, the \$5,140,639, the difference there is 317,529  
13 that are reflected in the party's position of 5.46 million, and  
14 we basically -- that was on Issue 2. We took out the call  
15 center salaries, because that was going to be addressed in  
16 Issue 8.

17 For Issue 3, the amount would be \$202,734 is the  
18 difference. And, again, that was regular pay. That is going  
19 to be addressed in Issue 8 for the call center activities.

20 COMMISSIONER EDGAR: So what I think I'm  
21 understanding you to say is that for the amounts in Issues 2  
22 and 3, that if the amount for the call center charges is added  
23 to the staff recommendation amount, that it is the same as the  
24 amounts that Progress had requested for those items?

25 MR. FLETCHER: It would be the same as OPC and the



1 intervenors' position of the 5.46 million in Issue 2, and then  
2 the 6.4 million in Issue 3.

3 COMMISSIONER EDGAR: The call center amount is added  
4 to it?

5 MR. FLETCHER: Yes.

6 COMMISSIONER EDGAR: All right. Thank you.

7 CHAIRMAN BAEZ: Commissioners, any other questions on  
8 Issue 2, or a motion?

9 COMMISSIONER DEASON: Move staff's recommendation.

10 COMMISSIONER EDGAR: Is that Issue 2, only Issue 2?

11 CHAIRMAN BAEZ: Issue 2. We're going issue-by-issue,  
12 Commissioner.

13 COMMISSIONER EDGAR: I'll second it.

14 CHAIRMAN BAEZ: A motion and a second. All those in  
15 favor say aye.

16 (Unanimous affirmative vote.)

17 CHAIRMAN BAEZ: Issue 3, questions or a motion.

18 COMMISSIONER DEASON: Mr. Chairman, if there are no  
19 questions, I can move staff's recommendation on Issue 3.

20 COMMISSIONER BRADLEY: Second.

21 CHAIRMAN BAEZ: A motion and a second, all those in  
22 favor say aye.

23 (Unanimous affirmative vote.)

24 CHAIRMAN BAEZ: Issue 4, questions or a motion.

25 COMMISSIONER DEASON: If there are no questions, I

1 can move staff's recommendation on Issue 4.

2 COMMISSIONER BRADLEY: Second.

3 CHAIRMAN BAEZ: A motion and a second. All those in  
4 favor say aye.

5 (Unanimous affirmative vote.)

6 CHAIRMAN BAEZ: Issue 5.

7 COMMISSIONER DEASON: Move staff.

8 COMMISSIONER BRADLEY: Second.

9 CHAIRMAN BAEZ: A motion and a second. All those in  
10 favor say aye.

11 (Unanimous affirmative vote.)

12 CHAIRMAN BAEZ: Issue 6. Questions or a motion,  
13 Commissioners.

14 COMMISSIONER DEASON: If there are no questions, I  
15 can move staff on Issue 6.

16 COMMISSIONER BRADLEY: Second.

17 CHAIRMAN BAEZ: A motion and a second. All those in  
18 favor say aye.

19 (Unanimous affirmative vote.)

20 CHAIRMAN BAEZ: Issue 7.

21 COMMISSIONER DEASON: I have a question on Issue 7,  
22 Mr. Chairman.

23 CHAIRMAN BAEZ: Go ahead, Commissioner.

24 COMMISSIONER DEASON: I believe I understand the  
25 adjustment as it pertains to only allowing incremental fuel

1 costs, but it seems to me that if the use of these vehicles was  
2 basically sixteen hours a day as opposed to eight hours a day,  
3 that the maintenance costs for the vehicles probably would, in  
4 base rates, would be based upon use of eight hours a day as  
5 opposed to sixteen.

6 Staff, is there any information in the record about  
7 the incremental maintenance costs associated with the  
8 double-duty use of the vehicles?

9 MR. FLETCHER: There was no quantification of the  
10 incremental cost as it relates to the maintenance in the  
11 record. That was an assumption from Witness Majoros, and he  
12 only applied it to the fuel.

13 COMMISSIONER DEASON: There was no rebuttal  
14 testimony.

15 MR. FLETCHER: There was no rebuttal testimony as  
16 relates to the maintenance expense. There was -- the company's  
17 recordkeeping didn't allow for it.

18 COMMISSIONER DEASON: Mr. Chairman, it seems to me  
19 that their true incremental costs would also be an amount with  
20 maintenance. But if there is information that is not in the  
21 record, I'm not sure that there is any way that we can quantify  
22 it. But just from a theoretical basis, it seems that would be  
23 the correct way to approach it, if we are going to be using an  
24 incremental cost approach. But I don't have a solution for  
25 that. I would just note that maybe in the future, or

1 something, that --

2 CHAIRMAN BAEZ: Some consideration has to be taken  
3 along those lines, but we are limited by the record somehow.

4 COMMISSIONER DEASON: If there are no other  
5 questions, I can move staff on Issue 7.

6 CHAIRMAN BAEZ: There's a motion. Is there a second?

7 COMMISSIONER BRADLEY: Second.

8 CHAIRMAN BAEZ: A motion and a second. All those in  
9 favor say aye.

10 (Unanimous affirmative vote.)

11 CHAIRMAN BAEZ: Issue 8. Any questions or a motion?

12 COMMISSIONER DEASON: If there are no questions, I  
13 can move staff on Issue 8.

14 COMMISSIONER BRADLEY: Second.

15 CHAIRMAN BAEZ: Moved and seconded. All those in  
16 favor say aye.

17 (Unanimous affirmative vote.)

18 CHAIRMAN BAEZ: Issue 9.

19 COMMISSIONER DEASON: I have a question on Issue 9,  
20 Mr. Chairman.

21 CHAIRMAN BAEZ: Go ahead, Commissioner.

22 COMMISSIONER DEASON: During the course of the  
23 extensive public hearings that we had in this docket, which  
24 were very helpful, one of the recurring themes that we heard  
25 was the need for there to be constant and current and accurate

1 information given to governmental officials and the public  
2 generally. And by most accounts, most of the testimony we  
3 received gave Progress Energy very high marks in that regard.

4 So I would not want any disallowance that we take in  
5 this issue to be any indication that there should be a  
6 reduction in the efforts in future storm events. So I just  
7 need to clarify with staff that the adjustment that you are  
8 making is in no way -- should be interpreted that the amount of  
9 activity was somehow imprudent, it is just that you are making  
10 an adjustment for the amount of these type costs which were  
11 already embedded in rates, is that correct?

12 MR. FLETCHER: That's correct.

13 MS. ROMIG: That we believe are embedded in rates.

14 COMMISSIONER DEASON: Yes.

15 MS. ROMIG: We have no way of knowing for sure.

16 COMMISSIONER DEASON: I understand. What you're  
17 trying to do is isolate what you consider to be incremental  
18 costs?

19 MS. ROMIG: Yes, sir.

20 COMMISSIONER DEASON: Mr. Chairman, with that  
21 understanding I can move staff's recommendation.

22 COMMISSIONER BRADLEY: Second.

23 CHAIRMAN BAEZ: A motion and a second. All those in  
24 favor say aye.

25 (Unanimous affirmative vote.)

1 CHAIRMAN BAEZ: Issue 10.

2 COMMISSIONER DEASON: I'm sorry -- yes, Issue 10.

3 CHAIRMAN BAEZ: Did I say Issue 10?

4 COMMISSIONER DEASON: We are on Issue 10, right.

5 CHAIRMAN BAEZ: That's right.

6 COMMISSIONER DEASON: I have a question about

7 Issue 10.

8 CHAIRMAN BAEZ: Go ahead, sir.

9 COMMISSIONER DEASON: First of all, I guess I need  
10 just clarification from staff on the accounting methodology  
11 currently employed by Progress Energy as it pertains to  
12 uncollectible expense. Just normal everyday accounting, absent  
13 a storm event, just how are uncollectible expenses accounted  
14 for.

15 MS. ROMIG: Okay. Normal accounting for  
16 uncollectible expense -- well, there are two different parts to  
17 it. One being that if a receivable has been set up, then you  
18 would debit 904, uncollectible expense, and credit your  
19 receivable for what you cannot collect but has been set up as a  
20 receivable and recognized as revenue. The second --

21 COMMISSIONER DEASON: I'm sorry. When you debit the  
22 uncollectible expense account, the corresponding credit is to  
23 what?

24 MS. ROMIG: I'm sorry?

25 COMMISSIONER DEASON: When you debit the

1 uncollectible expense account, what is the corresponding  
2 credit?

3 MS. ROMIG: You are crediting your accounts  
4 receivable.

5 COMMISSIONER DEASON: So you're basically reducing  
6 the amount of accounts receivable you expect to collect by the  
7 uncollectible portion?

8 MS. ROMIG: Yes.

9 COMMISSIONER DEASON: Okay.

10 MS. ROMIG: And the second part of it is that as you  
11 go along and you have a rolling average, I think it's like a 12  
12 or 13-month rolling average of your uncollectible expense, and  
13 if that indicates that your reserve is understated, then you  
14 would debit the 904 again, your uncollectible expense again,  
15 and credit, in that case, the reserve.

16 COMMISSIONER DEASON: Okay. And the uncollectible  
17 reserve is evaluated once yearly, is that correct?

18 MS. ROMIG: I believe it's a 13-month rolling  
19 average. And I think it is probably evaluated monthly, as I  
20 understand it.

21 COMMISSIONER DEASON: Okay. So you have confirmed  
22 for me that there is a reserve accounting mechanism for  
23 uncollectibles?

24 MS. ROMIG: Yes.

25 COMMISSIONER DEASON: And how do we treat that

1 reserve in a base rate proceeding for ratemaking?

2 MS. ROMIG: Generally, from what I have seen, is we  
3 look at the -- for the reserve, I'm not going to speak to that  
4 right now. I can tell you about the uncollectible expense.  
5 What we do there is we generally look at the historical twelve  
6 -- excuse me, three or four-year average, prior three-year  
7 historical average, or prior four-year historical average, and  
8 use that as uncollectible expense for your base rate  
9 proceeding. And from that we look at the net -- I think it's  
10 the net write-offs against the revenue and use that to develop  
11 the factor that is put into base rate revenue expansion factor.

12 COMMISSIONER DEASON: And you have attempted in this  
13 adjustment to ascertain the amount of uncollectible expense  
14 which is incremental, i.e., is associated with the hurricane  
15 events?

16 MS. ROMIG: Yes, sir.

17 COMMISSIONER DEASON: And how did you do that?

18 MS. ROMIG: The company submitted a late-filed  
19 hearing exhibit which supported the six million.

20 COMMISSIONER DEASON: Now --

21 MS. ROMIG: I'm sorry, I'm getting my cases mixed up.  
22 How about 2.25.

23 COMMISSIONER DEASON: Okay. I didn't know where the  
24 six came from. 2.25. Okay.

25 What does the reserve, the uncollectible reserve



1 balance usually run for this company on an average basis?

2 MS. ROMIG: I'm sorry, I don't know the answer to  
3 that.

4 COMMISSIONER DEASON: Do you know if this company had  
5 booked the uncollectible expense, what would it have done,  
6 would the reserve have gone negative at that point?

7 I'm just trying to ascertain why it is necessary to  
8 deviate from normal reserve accounting for uncollectibles and  
9 account for it in a storm reserve. It seems like the  
10 collection of uncollectibles, it is an unknown expense as well,  
11 and we have a reserve mechanism in place, and we do it on a  
12 rolling average basis, and it is, to some extent,  
13 self-correcting. And I know that these storms were  
14 unprecedented in their scope and impact, but why is it  
15 necessary to deviate that? Why is it necessary to account for  
16 uncollectibles in storm damage as opposed to the normal reserve  
17 mechanism we have had in place for years for this company?

18 MS. ROMIG: My thoughts on that were that if you let  
19 it go through the normal base rates, well, you've got -- unless  
20 you specifically made an adjustment in the rate case, then your  
21 expansion factor would overstate that uncollectible amount and  
22 it may go on for the next ten years or so because it is set in  
23 your revenue expansion factor on a going-forward basis.

24 COMMISSIONER DEASON: So you are concerned that it  
25 would -- to account for it in the normal reserve mechanism

1 would somehow skew the numbers, is that the concern?

2 MS. ROMIG: Yes, sir. Yes.

3 COMMISSIONER DEASON: So if we were to not account  
4 for it through the storm damage reserve, but account for it  
5 through the normal reserve process, would there be any  
6 necessary adjustment, for example, in the upcoming base rate  
7 proceeding for uncollectibles?

8 MS. ROMIG: If we did it at the rate we have been  
9 doing it, and you took the three-year average of the  
10 write-offs, net write-offs, then I would say that your bad debt  
11 expense, that part of the bad debt expense they would not be  
12 recovering at all.

13 COMMISSIONER DEASON: Why is that? If this is a  
14 self-correcting mechanism where you continually use a rolling  
15 average, to the extent any three or four or five-month period  
16 it may be higher than normal, but it gets averaged in, and then  
17 during the course it would go up, but it would gradually go  
18 back down again to a more normal level, would it not?

19 MS. ROMIG: That's a thought. I mean, for the bad  
20 debt?

21 COMMISSIONER DEASON: Yes, for uncollectibles.

22 MS. ROMIG: I think you are setting the base rates on  
23 a special specific number at that time that you set the rates  
24 on a specific amount.

25 COMMISSIONER DEASON: It would be an amount, an

1 average amount on a rolling average basis, would it not?

2 MS. ROMIG: But at a point in time for the expense  
3 item?

4 COMMISSIONER DEASON: Well, that is the question that  
5 I have. Would you take that rolling average, or would you try  
6 somehow an adjustment in the base rate proceeding to get it to  
7 a more normal level.

8 MS. ROMIG: I think you would have to make an  
9 adjustment in the base rate proceeding.

10 COMMISSIONER DEASON: And how did you satisfy  
11 yourself that these uncollectibles were incremental associated  
12 with the hurricane?

13 MS. ROMIG: Just based on what was in the record,  
14 that was all I had, and that was the late-filed exhibit, the  
15 discussion during the hearing process.

16 COMMISSIONER DEASON: And what was the practical  
17 rationale, is that because of the storm customers, some  
18 customers ceased receiving service, and therefore whatever they  
19 owed the company they did not pay, or was --

20 MS. ROMIG: I think it was because they indicated  
21 that their collection efforts were brought to a halt because  
22 the people who generally work on collections were working on  
23 other storm-related duties.

24 COMMISSIONER DEASON: So in this late-filed exhibit,  
25 how did Progress Energy quantify that? Was it just an amount

1 during the storm-recovery period that exceeded some type of an  
2 average for uncollectibles?

3 MS. ROMIG: They had a projection which had the  
4 projected amount at, I believe it was July 29, and then they  
5 had a new projection in September 5. And the difference  
6 between the September 5 projection and the July 29 projection  
7 was 1.5 million. And in addition to that, they added on  
8 another 650,000 for the potential impact of Frances, Jeanne,  
9 and Ivan. The first one, the big amount, the 1.563 was related  
10 to Charley, Hurricane Charley.

11 COMMISSIONER DEASON: This was the comparison,  
12 September to the July estimate?

13 MS. ROMIG: Right.

14 COMMISSIONER DEASON: And that is where the  
15 1.5 million came?

16 MS. ROMIG: That is the 1.563.

17 COMMISSIONER DEASON: Okay. And then you mentioned  
18 an addition of some \$650,000 associated with what?

19 MS. ROMIG: The rest of it was with the other three  
20 hurricanes, Frances, Ivan, and Jeanne.

21 COMMISSIONER DEASON: And was that just an estimate,  
22 or was there some type of a comparison between actual and  
23 forecast?

24 MS. ROMIG: They were projections based on their  
25 method of accounting. And according to their -- excuse me,

1 their method of accounting and their method of projections,  
2 which they indicated in the late-filed exhibit that to date the  
3 model has predicted that net charge-offs are pretty much in  
4 line with their method of projections and with what they  
5 projected. And, also, one of the witnesses was asked, I think  
6 it was Lyash, was asked on the stand whether they were on mark  
7 with their projected net write-offs and write-offs, excuse me,  
8 as a result of the storms, and he said we are pretty much  
9 there -- in fact, we are over what we had estimated. And that  
10 was during the hearing.

11 COMMISSIONER DEASON: Well, explain to me, I guess  
12 I'm having a little bit of difficulty understanding that. If  
13 these are customers who are connected to the system and  
14 receiving service, and while there may be some delay in  
15 ultimately collecting amounts because of a lack of effort -- or  
16 not a lack of effort, a redirection of priorities to other  
17 activities, that when personnel have the ability to refocus on  
18 collections, that if customers are going to remain on the  
19 system and continue to take service, they are going to have to  
20 pay up, it seems like, and make whole all the past due amounts,  
21 even if it is one, two, three, or four months.

22 And so while I can see there might be an interim  
23 escalation in uncollectibles, that if those customers are going  
24 to continue to stay on the system and receive service, they are  
25 going to have to eventually pay up. Have you given any

1 consideration to that?

2 MS. ROMIG: Correct. Based on that observation, I  
3 would think that a lot of them were just totally out of  
4 service, as you said in the beginning, and they couldn't get to  
5 them to collect. I don't know whether that is specifically in  
6 the record, I would have to go back and look.

7 COMMISSIONER DEASON: See my concern is that there  
8 may be charging of uncollectibles to the reserve for ultimate  
9 reimbursement through some type of a surcharge, when in  
10 reality, through the normal process of the normal collection  
11 activities, if customers are going to continue to be on the  
12 system and receive service, they are eventually going to have  
13 to make that up. So at some future time, we are going to see a  
14 reduction in that accumulated deficiency in the collections.  
15 Did the exhibit address that at all? Do we have any  
16 information on that phenomenon?

17 MS. ROMIG: No, we don't have any information. Now,  
18 if any of the collections -- if they do make up any of these  
19 collections, we have suggested or put in the recommendation  
20 that they not be charged against the reserve, or credited  
21 against the reserve, whichever way that goes. That, instead,  
22 they be taken into account in the true-up, sort of, you know,  
23 the true-up on all of the costs, the storm damage costs that we  
24 are looking at to date.

25 COMMISSIONER DEASON: I know in subsequent issues we

1 are going to be talking about surcharges, or recovery  
2 mechanisms, and the true-up mechanism, and you are saying that  
3 the uncollectibles will be trued up during the course of that  
4 process?

5 MS. ROMIG: Yes.

6 COMMISSIONER DEASON: Now, how are we going to get  
7 that information? Is it going to be part of the true-up filing  
8 that we are going to require of the company?

9 MS. ROMIG: I suppose we could have the company file  
10 something with us. But when we do the -- I guess I'll have to  
11 get someone else to speak to that issue. I don't know whether  
12 we are intending to have an audit to look at everything. I  
13 don't know what the plan is there. But as far as the  
14 collectibles are concerned, that could be part of it, if that  
15 is what we are going to do. If not, we could make it a  
16 separate request.

17 CHAIRMAN BAEZ: Mr. Wheeler.

18 MR. WHEELER: I could speak to the true-up process,  
19 which is actually coming much later in the list. The mechanism  
20 that is being recommended by staff is that a, sort of, final  
21 true-up of the costs would occur. It's my understanding that  
22 what we are approving today is kind of categories of costs, we  
23 haven't actually nailed down the actual costs.

24 And when the company files their true-up in  
25 conjunction with the regular fuel and other adjustment clause

1 filings for calendar year '06, which will occur in September of  
2 this year, that they would address that true-up process and  
3 would be subject to audit, just as any other clause mechanism  
4 would be subject to audit. So, presumably, at that time any  
5 other adjustment that we are talking about here would be  
6 addressed as well.

7 COMMISSIONER DEASON: Including uncollectibles, is  
8 that correct?

9 MR. WHEELER: Yes. Because, again, I want to make  
10 sure everyone understands that at this point the costs are not  
11 final. And the vote today, it's my understanding, will approve  
12 the estimated costs at this point and the types of costs that  
13 will be allowed for recovery. But the actual final costs will  
14 be filed in conjunction with the calendar year '06 adjustment  
15 clause filings, which, again, the projections, I believe, are  
16 due to be filed in September of this year.

17 COMMISSIONER DEASON: Okay. How does that work with  
18 the -- I know that staff has recommended a July 1st cut-off  
19 date. Have we already addressed that, or is that a subsequent  
20 issue, as well?

21 MR. WILLIS: We addressed that already, it was in a  
22 prior issue. The cut-off date was July 31st.

23 COMMISSIONER DEASON: July 31st.

24 MR. WILLIS: Of 2005, yes.

25 COMMISSIONER DEASON: So there will be no more costs



1 added to any subsequent true-up after July 31st, is that  
2 correct?

3 MR. WILLIS: July 1st, I'm sorry. But you are  
4 correct, there will be no more costs added after that point.

5 MR. WHEELER: Right, for work done after that point.  
6 But I guess the adjustment that I was speaking to is some of  
7 the costs that have already been incurred, invoices are still  
8 coming in, they haven't actually nailed down the exact dollar  
9 amount. As opposed to the cut-off date that Marshall was  
10 speaking of is the date on which any work done related to  
11 storms would not be recoverable after that date.

12 COMMISSIONER DEASON: Marshall, let me ask you this,  
13 since you are at a microphone. Are we going to be able to, at  
14 the true-up process, assure ourselves that only truly  
15 incremental uncollectibles are ultimately going to be recovered  
16 through some type of a cost-recovery mechanism? Do you feel  
17 confident of that?

18 MR. WILLIS: Yes, sir, I think so. That is what the  
19 whole true-up process is about. Because, as you all are aware,  
20 even when our auditors were in auditing the company, they were  
21 auditing estimates. There weren't that many actual costs at  
22 that point, up until the first of this year when they started  
23 really rolling in. That is the whole purpose of having the  
24 true-up is to pin down what the actual costs are. The idea of  
25 having -- this process right now is to pin down the types of

1 costs that the Commission believes are appropriate to be  
2 charged to the reserve and collected from customers. And once  
3 we have that down, we can actually true-up the costs at that  
4 point.

5 COMMISSIONER DEASON: And you are also confident that  
6 the mechanism that we utilize for uncollectibles in the true-up  
7 in the storm docket, that we will be able to assure that there  
8 is not going to be some skewing of uncollectible expense in the  
9 base rate proceeding?

10 MR. WILLIS: Yes, sir, I do, because I truly believe  
11 you can adjust out the anomaly. And if we look back on the  
12 three-year average, I think there is a true anomaly there, and  
13 that can be easily adjusted out in the 2006 test year that is  
14 being used in the rate case.

15 COMMISSIONER DEASON: That's all the questions I  
16 have, Mr. Chairman.

17 CHAIRMAN BAEZ: Commissioners, other questions?

18 A motion on Issue 11?

19 COMMISSIONER DEASON: Move staff.

20 COMMISSIONER BRADLEY: Second.

21 CHAIRMAN BAEZ: A motion and a second. All those in  
22 favor say aye.

23 (Unanimous affirmative vote.)

24 CHAIRMAN BAEZ: Issue 12.

25 COMMISSIONER DEASON: That was 10 that we just --

1 CHAIRMAN BAEZ: Was it? Issue 11, I apologize.  
2 Questions, Commissioners?

3 COMMISSIONER DEASON: I have a question, Mr.  
4 Chairman.

5 CHAIRMAN BAEZ: Go ahead.

6 COMMISSIONER DEASON: I understand, staff, it is your  
7 recommendation not to make an adjustment for prior restoration  
8 efforts which Progress Energy participated in in other areas.  
9 In other words, don't recognize the revenue they receive by  
10 their efforts to help other utilities, correct?

11 MR. FLETCHER: Correct.

12 COMMISSIONER DEASON: Now, my question is on a  
13 going-forward basis, should there be an attempt to have  
14 Progress Energy report revenue in excess of their incremental  
15 cost of that participation, and having that credited to the  
16 reserve on a going-forward basis, or is that inappropriate?

17 MR. FLETCHER: Well, I believe that they are separate  
18 and distinct. I mean, you are dealing with the restoration  
19 efforts for Progress and their assistance for restoration  
20 efforts of other utilities. I just don't think that there is a  
21 matching there. It should be a separate --

22 COMMISSIONER DEASON: Let me tell you what the  
23 matching is. When people come to help Progress Energy, those  
24 incremental costs are charged to the reserve. So in the  
25 situation where Progress is able to go and help another

1 utility, if there are revenues in excess of the incremental  
2 cost of doing that, should that be credited to the reserves?  
3 It seems to me that is the reciprocity of it.

4 MR. FLETCHER: I see your point. If you can,  
5 assuming you can measure the incremental amount, I think that  
6 could be considered.

7 COMMISSIONER DEASON: And I don't know, it may be  
8 something we should consider on a going-forward basis. It may  
9 be that the revenues are just enough to cover their incremental  
10 costs, and that trying to ascertain it would be more effort  
11 than is worthwhile. But I don't know that. I don't understand  
12 when Progress Energy sends its crews to help a utility, say, in  
13 South Carolina, how they determine the amount they charge the  
14 South Carolina utility to reimburse them. If it is simply a  
15 recovery of costs and nothing more, or if there is some type of  
16 an amount in excess of that. Do we have any information in the  
17 record as to how that is done?

18 MR. FLETCHER: That was in the record. Progress  
19 Witness Portuondo, basically he stated that it was just to  
20 defray the costs of the services of the employees that were  
21 sent to assist the other utilities. That was the main source  
22 of the revenues they had received. That was in the record.

23 COMMISSIONER DEASON: Okay. But as it pertains to  
24 this case, your recommendation is no adjustment to try to  
25 increase the reserve for past activities on Progress's part

1 where they helped other utilities in their recovery efforts.

2 MR. FLETCHER: That's correct, it is not to take that  
3 into account.

4 COMMISSIONER DEASON: Mr. Chairman, I'm in agreement  
5 with that as far as this particular docket, but I think this is  
6 something we probably could get some more information on. It  
7 may be just, you know, an informal data request to find out how  
8 that is done. And it may be an nonissue. It doesn't  
9 necessarily have to be done in the context of this document or  
10 anything, I would just ask staff to try to ascertain from the  
11 company how they get reimbursed when they send crews to help  
12 another utility.

13 If it is simply a recovery of costs, or if there is  
14 an additional amount which would be fair to credit to the  
15 reserve. And it may be a nonissue, but right now I don't think  
16 we have the information. And if we can get it, it may be  
17 helpful for future consideration.

18 MR. WILLIS: Commissioner Deason, if I can make a  
19 suggestion or a comment here. We have talked a lot among staff  
20 about the thoughts of going to a rulemaking proceeding next  
21 year after all of these dockets are done with, including the  
22 rate cases, to try and decide whether or not there should be  
23 some rules as far as how storm costs should be booked in the  
24 future. The other thought, also, is that we have pending rate  
25 cases right now, and we can actually explore that very issue in

1 the rate case.

2 COMMISSIONER DEASON: Whatever is the most efficient  
3 way to do it. I would like some information on that.

4 MR. WILLIS: We can explore it in the current rate  
5 case, at this point.

6 CHAIRMAN BAEZ: Commissioner Bradley.

7 COMMISSIONER BRADLEY: Right. If Progress goes to  
8 assist a utility company in Georgia with respect to  
9 restoration, and if they also participate in the restoration of  
10 infrastructure in a state like, say, New York or California,  
11 obviously, in my opinion, there would be some cost  
12 differentials between those three states. Is that the issue  
13 you are getting at?

14 COMMISSIONER DEASON: No, sir, not so much that.

15 COMMISSIONER BRADLEY: It might be more than Georgia?

16 COMMISSIONER DEASON: No, it is not so much different  
17 from state to state as it is a question of -- it is almost like  
18 is Progress making money on their efforts? And I'm sure it is  
19 probably -- I don't know that, I'm sure they are not trying to  
20 take advantage of a neighboring utility's situation, but I'm  
21 sure that whatever the agreements are are probably reciprocal,  
22 that when they go to the aid of another utility, probably the  
23 cost recovery is probably the same. In other words, what they  
24 would charge probably would be the same mechanism that they  
25 would anticipate getting charged by someone coming to their

1 assistance. My only question is is that cost-recovery  
2 mechanism simply to recover costs, or is there an amount in  
3 addition to cost-recovery, a profit center, if you will. And  
4 if there is, since we have a reserve accounting mechanism,  
5 should that additional amount be credited to the reserve, i.e.,  
6 to the benefit of the customers? And that is the question.

7 And I don't know what the facts are either way. I  
8 just question as to whether -- first of all, is there an amount  
9 recovered over cost? And if, so, what is the proper way to  
10 account for that incremental amount? That is the issue.

11 MR. WILLIS: And, Commissioners --

12 COMMISSIONER BRADLEY: I guess what my thinking is is  
13 that it would show up on the books as being one amount for  
14 Georgia for the same amount of time, if they spent two days in  
15 Georgia, two days in New York, and two days in Texas or  
16 California, the amounts would show up differently because of  
17 the expenses that would be incurred based on the distances that  
18 they have to travel and the cost of living and --

19 COMMISSIONER DEASON: I understand there would be  
20 different amounts as to the costs. But I guess the costs are  
21 the costs, as long as they are prudently incurred. The  
22 question is is there recovery above whatever the cost. And  
23 certainly if they had to travel a longer distance, one would  
24 think that their costs would be higher, but the question is  
25 just that incremental amount, if there is any.

1 COMMISSIONER BRADLEY: I understand exactly what you  
2 are getting at.

3 MR. WILLIS: And staff is committed to explore that  
4 in the current rate case.

5 CHAIRMAN BAEZ: A motion on Issue 11, Commissioners?

6 COMMISSIONER DEASON: Move staff with that  
7 understanding.

8 COMMISSIONER BRADLEY: Second.

9 CHAIRMAN BAEZ: A motion and a second. All those in  
10 favor say aye.

11 (Unanimous affirmative vote.)

12 CHAIRMAN BAEZ: Issue 12.

13 COMMISSIONER DEASON: If there are no questions, I  
14 can move staff on 12.

15 COMMISSIONER BRADLEY: Second.

16 CHAIRMAN BAEZ: A motion and a second. All those in  
17 favor say aye.

18 (Unanimous affirmative vote.)

19 CHAIRMAN BAEZ: Issue 13 was part of a stipulation.  
20 Issue 14.

21 COMMISSIONER DEASON: Mr. Chairman, I believe this is  
22 kind of a fall-out issue, the way I interpret it, based upon  
23 previous decisions. And I believe we have made no changes to  
24 staff's recommendation on any of the issues, so the number  
25 would still be the same, would it not?



1 MR. WILLIS: That's correct.

2 MR. FLETCHER: That's correct.

3 CHAIRMAN BAEZ: It is a fall-out, Commissioner.

4 COMMISSIONER DEASON: I would move staff on Issue 14.

5 COMMISSIONER BRADLEY: Second.

6 CHAIRMAN BAEZ: Moved and seconded. All those in  
7 favor say aye.

8 (Unanimous affirmative vote.)

9 CHAIRMAN BAEZ: Issue 15.

10 COMMISSIONER DEASON: Mr. Chairman, this is a  
11 difficult issue, one that I have wrestled with. On the one  
12 hand there is the fact that the 2004 hurricane season was  
13 unprecedented in scope and in cost, the impact on customers and  
14 the utility's infrastructure. To the extent it really could  
15 not have been predicted or estimated in terms of having an  
16 adequate reserve in the event of such a catastrophic event, and  
17 one would anticipate that when the settlement was reached that  
18 it probably was not envisioned that there would be such an  
19 event.

20 However, on the other hand, there is a settlement,  
21 and to me the words are very clear. And there is a protection  
22 in that settlement that provides that if earnings fall below 10  
23 percent that there can be the initiation of a proceeding to  
24 recover costs, i.e., an increase in rates to recover costs  
25 which caused the company to fall below a 10 percent return on

1 equity. I'm a firm believer in settlements. I think that they  
2 are a good thing for our companies that we regulate as well as  
3 to the customers that we protect, and that Public Counsel and  
4 others who are signatories to those have entered into those  
5 negotiations willingly and with the idea that this Commission,  
6 if it approves the settlement, is going to uphold it. So that  
7 is the quandary that I'm in.

8           And it is further complicated by the fact that it's  
9 imperative, particularly for utilities in Florida, it is  
10 imperative that our utilities be financially sound and have the  
11 financial wherewithal such that when a catastrophic event  
12 happens, that there is no hesitation on the utility's part that  
13 they devote the manpower, the resources, and call on extra  
14 manpower and resources from other areas to come in and to  
15 restore service as quickly as possible. And I think we saw  
16 that in 2004. Hurricane after hurricane after hurricane this  
17 utility met the challenge, and knew that it was in a position  
18 financially to go and to do what is done to restore service.

19           And there was no hesitation on vendors to provide the  
20 necessary equipment because they knew they were going to get  
21 paid. There was no hesitation on outside utilities sending  
22 crews to Florida, because they knew that Progress Energy was in  
23 a situation where they would meet their commitments to pay the  
24 costs of those crews that were sent here to restore our  
25 service.

1           What would be a real catastrophe, even more difficult  
2 than what we suffered in 2004, if we have a repeat of that, and  
3 there is hesitation on the part of people coming to our  
4 assistance because they have doubt as to whether our utilities  
5 have the financial ability and wherewithal to meet its  
6 commitments, and that restoration would be prolonged as a  
7 result. That would be the real hit.

8           I know there is a -- I hate to mention this, but I  
9 guess I'm going to do it any way, there is an editorial here  
10 headlined, "Another Hit for Hurricane Victims." That would be  
11 the real hit, Mr. Chairman, if our utilities do not have the  
12 financial resources to restore service to the victims of  
13 hurricanes that are out there, their property damaged or  
14 destroyed, their assets in question, perhaps their own safety  
15 in question, if our utilities have to hesitate and don't have  
16 the financial wherewithal to restore service to the victims.  
17 That is a real hit to victims, and that is what we have got to  
18 be cognizant of.

19           Having said that, I go back to the question of the  
20 stipulation and the wording of that. I have difficulty with  
21 allowing a cost-recovery mechanism in excess of the costs that  
22 would reduce the earned return on equity 10 percent. So I  
23 would like to hear from other Commissioners in that to maybe  
24 help my thinking to some extent. But I'm trying to craft, in  
25 my own mind, a means whereby the sanctity of the stipulation is

1 upheld, and we still ensure that this utility has the financial  
2 wherewithal to meet its past commitments and continue to be in  
3 a position to meet future commitments that we all hope do not  
4 occur, but we know living in Florida that it's going to occur  
5 again. So I probably have said enough at this point. I would  
6 like to hear from others.

7 CHAIRMAN BAEZ: Well, there was a lot of talk -- let  
8 me start off by saying I agree with so much of what you said.  
9 There was a lot of argument and a lot of points made in terms  
10 of what effect the stipulation had. And I'll speak now, you  
11 know, I guess as a concept, that because of the way the  
12 stipulation was crafted that, in effect, it stood as  
13 representative of the company's willingness to take on the  
14 risk, or assuming the responsibility for everything over the  
15 limits of those, over those limits that were set in the  
16 stipulation.

17 And I have to tell you that I always had a problem  
18 with that. And the reason is this: In my mind, and having  
19 been, you know, having been sitting on the Commission at the  
20 time that the stipulation was brought forth, I think the effect  
21 of the stipulation, in my mind, drew a line and kind of froze a  
22 point in time on a revenue basis, and then it was going to  
23 escalate year over year allowing for some growth, and all of  
24 that was captured in the stipulation.

25 What I don't think the stipulation captured, and,

1 boy, we can armchair quarterback this over and over again,  
2 given the circumstances, but one of the things that I don't  
3 think it captured was the eventuality or the extraordinariness  
4 of the events that we are dealing with, of the season that we  
5 are dealing with in 2004.

6 Had it been one storm, had it been a storm that  
7 stayed within what was previously the accrual on a storm  
8 reserve, you know, nobody would have had a problem with it. I  
9 don't even think there would have been an issue because the  
10 funds would have been there or at least reserved there and they  
11 could have been addressed. And, in my mind, the logic of  
12 having to accommodate an extraordinary circumstance into what  
13 was otherwise a conventional document, I mean, there was no,  
14 there was nothing extraordinary about that stipulation.

15 And because there was nothing extraordinary about the  
16 stipulation, I would feel very uncomfortable attributing  
17 extraordinary circumstances that that stipulation should  
18 control. And for that, I would be a little uneasy accepting  
19 the arguments of Public Counsel, although I think they are well  
20 placed, and I think, if nothing else, it should set the pattern  
21 or set the mindset for future settlements of that kind.

22 You know, it's a learning experience, and we all have  
23 to learn how to do things better and learn how to anticipate  
24 other things. And I suspect that should the current rate cases  
25 meet with any favorable settlement in the near future, I'm

1 willing to bet that things like this are going to be  
2 contemplated in a more explicit fashion.

3           As it stands now, I don't think that we can impute an  
4 extraordinary circumstance to what was otherwise a fairly,  
5 although enlightened document, not a groundbreaking document by  
6 any stretch, and I mean that with all due respect and  
7 admiration to the people that drew it up and negotiated it on  
8 both sides.

9           That is my uneasiness with it. I think I share your  
10 reluctance. What I at least feel is your reluctance to do  
11 anything otherwise. So I'm comfortable with the staff's  
12 recommendation on this issue. Commissioners, I don't know  
13 where you all come down, if you have any questions or want to  
14 discuss it a little further.

15           Commissioner Edgar.

16           COMMISSIONER EDGAR: Only to state similarly,  
17 Commissioner Deason, I appreciate your discussion in laying out  
18 some of the things that I know each of us have been grappling  
19 with on this issue, trying to take into account the information  
20 before us in the record, the testimony that we heard at service  
21 hearings, and the other documentation.

22           My understanding of what is before us is that this is  
23 a surcharge for a limited, finite, specific period of time that  
24 we would be talking about. That it is for specific costs that  
25 we have had testimony and evidence attributed to the

1 extraordinary circumstances, and with those understandings,  
2 then I am, I think, along the same thought process that you and  
3 Chairman Baez have laid out for us.

4 CHAIRMAN BAEZ: And I want to take a second, if I can  
5 interrupt, just to say one more thing, because I think you hit  
6 the nail on the head. You know, we shoot words out like public  
7 interest, and somehow those two words get tortured into some  
8 concept that, you know, the customers shouldn't bear risks, at  
9 least not based on the decisions that the Commission has made  
10 in the past. That, again, as the editorials -- here we go,  
11 you're putting editorials on the record, how crazy is that.

12 But, you know, that the concept of hitting the  
13 consumers and hitting the ratepayers, I don't know if it is the  
14 right time to say this, but, you know, there was a benefit to  
15 the ratepayers when this kind of scheme was implemented. The  
16 whole concept of creating reserves and rainy day funds, as they  
17 have been commonly named, is so that you are not -- it is not a  
18 panacea, it is not a solution to all the problems, and  
19 certainly not to the extraordinary problems that we faced last  
20 year. It is for your run-of-the-mill, to the extent any storm  
21 is, but to the most common denominator.

22 And in that sense, I think the customers have been  
23 getting a benefit all along. Because if we had to account, and  
24 if we had to anticipate the most extreme of circumstances, I  
25 guarantee you the rates that the ratepayers will be paying

1 would be much, much higher on a constant basis if we had to  
2 anticipate or if we had to guard against a four-storm season  
3 like we had in 2004.

4 As luck would have it, we got four storms at a time  
5 when we weren't ready for them financially. But the compact  
6 between the customers and the companies as set forth by this  
7 Commission and ratified by this Commission has always been that  
8 there is going to be recovery of reasonable and prudent costs  
9 expended. And that has always been the expectation. And I  
10 hate to sound harsh or hard-hearted about it, but I think that  
11 the ratepayers often forget that part. They forget the benefit  
12 that they have been enjoying or getting through the years when  
13 there aren't four storms.

14 The only unfortunate fact is that we did have four  
15 storms this past year, and now comes time to pay the piper.  
16 It's not easy. It's certainly not easy making these decisions.  
17 Again, going back to something that Commissioner Deason said  
18 earlier, this is a really tough issue. But I don't think  
19 anybody sitting here would have, you know, two years ago would  
20 have told you that we were going to be dealing with four  
21 storms.

22 Nobody in this room, and nobody in the state could  
23 have predicted it. But this is the aftermath. And we have to  
24 do our best to deal with it taking, in fact, the public  
25 interest to heart. And the public interest is nowhere more



1 vivid and nowhere more in the face of all of us that work  
2 likewise in the industry and on the regulatory side, and Public  
3 Counsel, as well. Nowhere is the public interest more vivid  
4 than when you do have storms, and you do have people out of  
5 power, and you do have to get power back up because lives are  
6 at stake.

7 I agree with you, Commissioner Deason, that would be  
8 the saddest hit of all on these ratepayers. And the last thing  
9 that you want to do is to have the public interest in all of  
10 its rawness and all its vividness standing there, and have  
11 somebody second-guessing whether they were going to get their  
12 bills paid. You don't want to make a business decision when  
13 lives are at stake. And that is really what the crux of this  
14 matter is. It is a hit, I cannot disagree with the editorials,  
15 much to my chagrin. But, you know, this is just not one of  
16 those times that we should be arguing over the price of  
17 something to the extent that our staff has done such good work  
18 in trying to nail down what the costs really were.

19 Anyway, I'm sorry, Commissioner Edgar, if I  
20 interrupted or went off on a rant. But, to say the least, I  
21 agree with the recommendation.

22 COMMISSIONER BRADLEY: Well, I'm not necessarily  
23 referring to anything that has been written or said about this  
24 particular issue, but, you know, we have a tough job here as  
25 Commissioners. And we have to do what is best for the entire

1 state of Florida. And there is always going to be some  
2 disagreement as to how we get there, but we have to have the  
3 courage to find a method that is fair and equitable to  
4 everyone, regardless of what their vested interest is. It is  
5 just a tough job, but we have to make tough decisions. I think  
6 that this is the best way to deal with what the state of  
7 Florida has experienced.

8 I might feel differently if we had only experienced  
9 one hurricane, because there was a sufficient amount of dollars  
10 in the fund to cover that cost. But we had not just one, but  
11 four occurrences to deal with, and probably are going to have  
12 several this year to deal with, which is going to compound and  
13 complicate this method of recovery, so --

14 CHAIRMAN BAEZ: I hope you're wrong, Commissioner.

15 COMMISSIONER BRADLEY: I hope I am also.

16 CHAIRMAN BAEZ: But I understand your point.

17 COMMISSIONER BRADLEY: But, again, we have to think  
18 about what is best for everyone. And, you know, my experience  
19 has been, in my years of being in the public policy business,  
20 that usually a good decision is one that nobody agrees with.  
21 But when everyone disagrees, that means that they all can live  
22 with it. If someone is happy with a decision, that usually  
23 means that someone else got the short end of the stick. So,  
24 you know, this is a tough issue, and I think we have made a  
25 good decision for the entire state of Florida.

1 COMMISSIONER DEASON: Mr. Chairman.

2 CHAIRMAN BAEZ: Commissioner.

3 COMMISSIONER DEASON: I appreciate all of the  
4 sentiment, and I certainly understand that. I'm going to -- if  
5 you will indulge me, though, I'm going to try to go through an  
6 exercise that may try to be the best of both worlds, if at all  
7 possible, and try to maintain the settlement and still provide  
8 the necessary cost-recovery that I think we all think is  
9 essential for the protection of our customers. And it may be a  
10 little convoluted, so give me a little bit of time here, and  
11 maybe we can work this out. I'm not sure it's a solution, but  
12 it may, if nothing else, trigger some healthy debate.

13 CHAIRMAN BAEZ: I don't think anything could be more  
14 convoluted than the day we have had already.

15 COMMISSIONER DEASON: Let me ask this question to  
16 begin with. And I tried to find it quickly, but it escapes me,  
17 and I'm sure staff knows it already. What was the amount in  
18 the storm reserve before the 2004 season?

19 MR. FLETCHER: Before the 2004 season, I don't think  
20 that that is reflected in the record. It was 46 million as of  
21 12/31/04. But before August, I'm not quite sure what the  
22 amount --

23 COMMISSIONER DEASON: Was that in the record? I  
24 mean, we had to have the amount of the total expenses incurred  
25 in 2004, and the amount of that that was recovered by debiting

1 the reserves to get a net amount that was going to be subject  
2 to recovery though a surcharge or a cost-recovery mechanism.

3 MR. FLETCHER: The amount that was in the reserve was  
4 \$46,915,219.

5 COMMISSIONER DEASON: Now, we could debate as to  
6 whether that is or is not an adequate reserve. Obviously  
7 before the 2004 season, we thought it was a pretty good number.  
8 As a result of 2004, it could be up for debate as to whether  
9 that is an adequate reserve or not. But at one point we  
10 thought that was a fairly good number, or as a goal.

11 Mr. Chairman, I'm also concerned about having an  
12 adequate reserve on a going-forward basis, as well. And we  
13 know that right now we are in a deficit position. If we were  
14 to -- and maybe this is something legally we can't do, I don't  
15 know, and maybe it is within our discretion under accounting  
16 rules to be able to do.

17 If we were to not write off that reserve, but to  
18 continue to maintain it, and, in essence, add \$46.9 million to  
19 the amount that is under consideration for recovery here as a  
20 surcharge, take that number and to find out how much of that  
21 number would lower Progress Energy's return on equity to 10  
22 percent, and whatever the excess amount would be subject for an  
23 immediate recovery through a surcharge, and the other amount  
24 set aside as a regulatory asset for future recovery and for  
25 consideration in the base rate proceeding, would that provide

1 adequate recovery, maintain an adequate reserve, and also  
2 ensure cost-recovery on a long-term basis? That's the  
3 question.

4 And I know that there is a lot there. I think there  
5 are a lot of people looking at each other right now, and I hate  
6 springing this, but in all honestly, this thought only occurred  
7 to me last night as I was grappling with this very difficult  
8 issue.

9 MR. FLETCHER: Could we have a moment to confer?

10 COMMISSIONER DEASON: Mr. Chairman, could we --

11 CHAIRMAN BAEZ: What do you need, five or ten  
12 minutes. Ten minutes?

13 COMMISSIONER DEASON: Can I just go over again  
14 what --

15 CHAIRMAN BAEZ: Go ahead, Commissioner. Why don't  
16 you clear it up for me.

17 COMMISSIONER DEASON: Okay. The amount that was in  
18 the reserve, \$46.9 million, as opposed to using that to reduce  
19 the amount of 2004 expense subject to recovery, look at the  
20 entire expense amount, don't debit anything to the reserve,  
21 that stays there and that is for use for this future hurricane  
22 season coming up, that is an amount of expense dollars  
23 associated with the 2004 season.

24 The amount of those expense dollars which would bring  
25 Progress Energy down to a 10 percent return on equity, put that

1 into a regulatory asset for future recovery, probably for  
2 consideration in the base rate proceeding. Okay. And then the  
3 amount that would cause Progress Energy to earn below 10  
4 percent, that amount, to have that be for immediate recovery  
5 through a surcharge mechanism in this proceeding. You may  
6 disagree with it, but do you understand the mechanics?

7 MR. FLETCHER: Yes, Commissioner.

8 MR. WILLIS: Yes, we understand it.

9 COMMISSIONER DEASON: Okay. If you could just give  
10 that some thought, I would appreciate that. And the Chairman,  
11 I think, is going to give you ten minutes to think about that.

12 MR. WILLIS: We appreciate it.

13 CHAIRMAN BAEZ: I was going to give whatever Mr.  
14 Devlin said, and he said ten minutes, so you can blame him.

15 We will recess for ten minutes.

16 (Recess.)

17 CHAIRMAN BAEZ: We'll go back on the record.

18 Mr. Slemkewicz, the bet is to you, sir.

19 MR. SLEMKEWICZ: I'm going to attempt to deal with  
20 the numbers as Commissioner Deason suggested. If you turn to  
21 Page 48, you would start with that very top number, 285  
22 million. That has the staff adjustments in it of \$26 million.  
23 However, only 18 million of that relates to expenses. The cost  
24 removal would be considered depreciation.

25 In order to lower the company down to 10 percent

1 return, it would take a total of \$113.2 million. Since we have  
2 already accounted for 17,903,000, that would leave an  
3 adjustment of 95,297,000, which --

4 COMMISSIONER DEASON: I'm sorry, 95 million what?

5 MR. SLEMKEWICZ: 95,297,000. Which would leave you  
6 with 189,812,000 on a system basis that the company would be  
7 able to recover. Now, this does not -- it is not  
8 jurisdictionalized, it doesn't have the interest calculation to  
9 get down -- it is not comparable to that 231 million that staff  
10 is recommending be recovered from the customers. It's really  
11 equivalent to the 238 -- well, not even that, sorry. There  
12 isn't anything to really compare it to. I'm trying to do this  
13 on the fly, and sometimes that doesn't work.

14 COMMISSIONER DEASON: Well, you would have to add  
15 interest to this, right?

16 MR. SLEMKEWICZ: Right, you would have to add  
17 interest to that 189 million. And if I understand correctly,  
18 we would be deferring, as a regulatory asset, that \$95 million  
19 adjustment to be considered in the rate case or at some future  
20 period.

21 COMMISSIONER DEASON: And we would have a  
22 46.9 million reserve still on the books for the upcoming  
23 hurricane season?

24 MR. SLEMKEWICZ: That's correct.

25 CHAIRMAN BAEZ: I'm sorry, you would have how much?

1 MR. SLEMKEWICZ: You would still have the forty --  
2 well, as of the end of 2004, you would have the \$46.9 million  
3 in the reserve and it keeps growing at \$6 million a year.

4 COMMISSIONER DEASON: Yes. Now, so these are the  
5 mechanics?

6 MR. SLEMKEWICZ: Yes, sir.

7 COMMISSIONER DEASON: And we kind of gone through  
8 that. Now, and you're not going to hurt my feelings any, just  
9 tell me whether this is a good thing to do or a bad thing, and  
10 tell me why or why not.

11 MR. SLEMKEWICZ: I mean, it's something that could be  
12 done. And if you feel that, you know, it looks like that would  
13 be more in line with -- or possibly more in line with the  
14 stipulation if you were looking at the 10 percent limit. Now,  
15 it doesn't reduce their earnings to 10 percent, this just has  
16 the effect of, you know, if we did reduce it, you'd reduce  
17 expenses -- I'm sorry, increase expenses by that 95 million.  
18 But we are going to defer those, so it doesn't affect their  
19 rate of return.

20 COMMISSIONER DEASON: I understand. The 95 million  
21 would be a regulatory asset for consideration.

22 MR. SLEMKEWICZ: Right. You would just be deferring  
23 recovery, if that is what you determined to do, at a future  
24 date. So the company would still be recovering all of its  
25 storm damage costs that we feel are appropriate, it's just that



1 right now you would only let them recover 189 million through a  
2 surcharge, and you would defer the other 95 million to a future  
3 date.

4 CHAIRMAN BAEZ: Right. And explain to me, under this  
5 scenario, that 95 million that you set up as a regulatory  
6 asset, that is at risk, recovery for that is at risk? No?

7 MR. SLEMKEWICZ: It could be at risk. It depends on  
8 what you would determine to do with it in the future.

9 MR. WILLIS: If it's a regulatory asset, if you set  
10 it up as a recovery asset, to be a regulatory asset you have to  
11 have recovery set up for that.

12 COMMISSIONER DEASON: You can't book it as that  
13 unless -- the auditors won't let you book it as that unless  
14 there is an assurance from the regulatory --

15 MR. WILLIS: A plan for recovery.

16 COMMISSIONER DEASON: -- agency there is going to be  
17 ultimate recovery.

18 MR. WILLIS: And I can see that if you possibly  
19 indicated that that would be considered in the current rate  
20 case which rates would be going into effect after the  
21 settlement is over, that that would encompass a plan for  
22 recovery, that probably would be sufficient.

23 MR. SLEMKEWICZ: But you would have to get some  
24 assurance that that was going to take place.

25 MR. WILLIS: Yes.

1           COMMISSIONER DEASON: Commissioners, I understand  
2 it's jumping through a few hoops to try to be consistent with  
3 the stipulation, and I guess it is just a question of how you  
4 view the stipulation. And I know that there is some sentiment  
5 that given the extreme extraordinary circumstances of the 2004  
6 season that it could not be contemplated that the stipulation  
7 could have addressed those events. And I see that, and I  
8 understand that completely, and I certainly would respect a  
9 decision just simply to do that.

10           I'm just trying to craft something that I think meets  
11 the letter of the requirements of the stipulation and still  
12 assures that there is adequate cost recovery so as to ensure  
13 that in future events that there would be adequate resources  
14 available to meet the demands at that time.

15           CHAIRMAN BAEZ: Commissioner, there are parts of your  
16 suggestion or parts of the scenario that are laudable. The one  
17 part that the gives me the biggest heartburn is that it would  
18 require accepting an interpretation of the stipulation that put  
19 everything at risk over 10 percent. And I was -- when I read  
20 that stipulation, and when I voted to approve that stipulation,  
21 that was not the interpretation that I had.

22           My understanding of that 10 percent was, in fact, a  
23 threshold below which the company would be entitled or  
24 authorized to come in and request relief. It didn't stand --  
25 in my mind, at least, it didn't stand as some upper limit, some

1 upper mathematical limit that we would hold them to in the  
2 event anything that wasn't addressed explicitly in the  
3 stipulation, that if there was something that wasn't explicitly  
4 addressed, like the hurricane, and especially in something like  
5 this, that it would be held as an upper limit of return. That  
6 is the heartburn that I have. It is to accept as a  
7 philosophical argument that that is what that 10 percent, that  
8 that is what that term in the stipulation stood for. And I  
9 have trouble accepting that.

10 COMMISSIONER DEASON: I understand that, and I  
11 respect that. Just let me explain how I view it, which is a  
12 little differently.

13 CHAIRMAN BAEZ: Okay.

14 COMMISSIONER DEASON: It is not putting it at risk,  
15 it is just delaying the recovery past the stipulation period so  
16 that it is not in violation of the stipulation which says there  
17 is not going to be any increase in rates before January 1,  
18 2006. And that would be the basis of the regulatory asset,  
19 which would be a finding by the Commission that consistent with  
20 the adjustments that we have made, we have passed judgment that  
21 these are prudent amounts that should be recovered.

22 Now, granted it would still be at the discretion of  
23 the Commission during the base rate proceeding to determine,  
24 you know, how it is to be recovered, and at what rate over what  
25 period of time. So to some extent there might be some risk

1 associated with that, but I think ultimately there would be  
2 cost recovery.

3 And a strong case could be made that the recovery  
4 should be quicker rather than delayed based upon the fact that  
5 there could be additional storms. But it gives me some comfort  
6 that in this we would maintain a fairly significant amount in  
7 the reserve to get us through this hurricane season.  
8 Hopefully, 46.9 would get us through this season. I hope we  
9 don't have a season that is going to deplete that, as well.

10 CHAIRMAN BAEZ: And that is, perhaps, the most  
11 attractive part of the proposal. I just, you know, I have  
12 trouble -- I guess I have trouble reading the stipulation that  
13 way.

14 COMMISSIONER DEASON: And that's fine, and I  
15 understand that. And your rationale and your reading of it, I  
16 can't find fault with it. I don't necessarily disagree. I was  
17 just trying to craft a solution that hopefully would, as  
18 Commissioner Bradley says, make everybody a little unhappy, I  
19 suppose.

20 CHAIRMAN BAEZ: That does sound attractive sometimes.

21 COMMISSIONER DEASON: But anyway that is just a  
22 thought. I throw it out there. I'm not trying to advocate it,  
23 it was just a thought. I find some merit in it. But  
24 sometimes, you know, you need to throw something out and see  
25 what other people have to say about it. And I invite staff to

1 be perfectly honest. If you think it is a terrible idea, you  
2 know, tell me and tell the other Commissioners. You're not  
3 going to hurt my feelings at all.

4 CHAIRMAN BAEZ: Commissioner Bradley.

5 COMMISSIONER BRADLEY: I'm thinking. What I hear  
6 coming from staff is some indecisiveness.

7 MR. WILLIS: No, Commissioner, I don't think you hear  
8 indecisiveness from staff. It is a workable solution. I don't  
9 see a problem with it as long as the Commission indicates that  
10 they will have recovery of the -- was it the 95 million, in the  
11 next rate case of the company. As long as there is a recovery  
12 mechanism set out, it could be -- (simultaneous  
13 conversation) -- a regulatory asset.

14 COMMISSIONER BRADLEY: I still hear indecisiveness.  
15 And I will tell you what I'm hearing. This recommendation you  
16 clearly understand because you had the opportunity to spend a  
17 lot of time with it. And what I'm hearing, and even though  
18 you, as a communicator, you are very decisive, I'm hearing a  
19 lot of probablies, and a lot of maybes, and, well, unintended  
20 consequences.

21 And you have explained it to me, but I need to see  
22 the figures. I can see these. I mean, there is a very good  
23 side to what Commissioner Deason just explained, but then there  
24 is another side of it that I don't clearly understand. Tough  
25 decisions.

1           CHAIRMAN BAEZ: Well, and I want to get it clear in  
2 my head what -- in order that this proposal would be workable,  
3 exactly what interpretation would we have to be giving the  
4 stipulation?

5           COMMISSIONER DEASON: My interpretation is that we  
6 would be abiding by no increase in base rates, and I would be  
7 classifying a surcharge as --

8           CHAIRMAN BAEZ: An increase in base rates.

9           COMMISSIONER DEASON: No increase in base rates,  
10 except to the point that it causes the company to earn lower  
11 than a 10 percent rate of return before January 1, 2006.

12           CHAIRMAN BAEZ: And I guess I'm having trouble  
13 understanding why a surcharge is considered an increase in base  
14 rates. What is it about the surcharge that categorizes --  
15 allows it to be categorized as an increase in base rates?

16           COMMISSIONER DEASON: You have recovery clauses and  
17 you have base rates, and it is one or the other. It is  
18 certainly not a recovery clause.

19           CHAIRMAN BAEZ: Well, it's not a recovery -- it's  
20 something in between, isn't it? Are those the only two  
21 choices? I'm sorry, I know I'm too old to be asking silly  
22 questions at this point.

23           COMMISSIONER EDGAR: I vote for another as a third  
24 choice. Other.

25           CHAIRMAN BAEZ: Connie, what --

1 MS. KUMMER: We discussed this in Issue 20. And I  
2 follow Commissioner Deason's thought, I guess maybe we have  
3 both been here too long. But recovery clauses were designed  
4 for a very specific purpose. They were designed to recover  
5 recurring costs that fluctuated in price. If you put a highly  
6 variable cost into base rates, either the company or the  
7 ratepayers are going to lose in the long run, because base  
8 rates aren't reset that often. So that is what cost-recovery  
9 clauses were designed to be. These are neither recurring  
10 nor -- well, they are volatile, but volatile to the extent, as  
11 you say, I hope we don't have these every year.

12 CHAIRMAN BAEZ: Right. But then what about them -- I  
13 mean, we can all sit here and nod our heads and say, yes, this  
14 was extraordinary. And the very reason that they are  
15 extraordinary is why you have a reserve which is anticipated,  
16 which is regular, which is part of base rates, or recovered  
17 through base rates, why you have one going in the negative  
18 because this is extraordinary.

19 Now, I can understand the logic of not calling it a  
20 clause. If we want to get into definitions I can accept that,  
21 but why we are going to call it an increase in base rates I  
22 also can't accept. Base rates are designed for a certain  
23 purpose, and that is to get whatever it is we have decided a  
24 regulated utility, in this case, needs to get through its  
25 monthly -- back home we call it a nut, but, you know --

1 MS. KUMMER: I think by calling it a surcharge you  
2 kind of put it in that nether land.

3 CHAIRMAN BAEZ: Ah, nether land.

4 MS. KUMMER: Because you are not increasing base  
5 rates.

6 CHAIRMAN BAEZ: That's an interesting -- see, Connie,  
7 you came in agreeing with Commissioner Deason, and now you just  
8 called it a nether land, and I agree.

9 MS. KUMMER: It's not a recovery clause.

10 CHAIRMAN BAEZ: It's not a recovery clause. It's a  
11 nether land, isn't it?

12 MS. KUMMER: If you look at the dichotomy, you either  
13 have a recovery clause or base rates. And if it is not a  
14 recovery clause, it has to be a base rate.

15 CHAIRMAN BAEZ: Why? Why?

16 MR. MELSON: Commissioner --

17 COMMISSIONER BRADLEY: Let me ask this question. You  
18 know, when we first started out with this issue, the surcharge  
19 was the only mechanism that was available to us. Subsequent to  
20 all of those discussions that we have had, bonding has become a  
21 probability -- a possibility, I meant to say. Now, help me  
22 with this, a finance person. A surcharge would have a direct  
23 impact upon the cost of equity. It is an equity issue, right?

24 MS. KUMMER: Whether it is a surcharge or a base  
25 rate, it is a rate definition. It wouldn't necessarily impact,



1 I wouldn't think, I would defer to Andrew or the accountants,  
2 but, no, it is just a terminology issue more than anything.

3 COMMISSIONER BRADLEY: What happens if this turns  
4 into, if it moves from a surcharge to a bonding issue, does  
5 that change anything?

6 MR. MAUREY: Commissioner, are you referring to  
7 securitization?

8 CHAIRMAN BAEZ: Yes, I think he is.

9 MR. MAUREY: It would not impact their return on  
10 equity.

11 COMMISSIONER BRADLEY: What do you mean when you say  
12 it wouldn't impact the return on equity?

13 MR. MAUREY: If they recovered these monies through a  
14 surcharge, or through the recovery of a regulatory asset, or  
15 through securitization, it would not impact the earned return  
16 on equity for the company.

17 CHAIRMAN BAEZ: It is a wash whatever you decide,  
18 that is what Mr. Maurey is suggesting.

19 COMMISSIONER BRADLEY: A bond wouldn't affect the  
20 return?

21 CHAIRMAN BAEZ: A bond would affect it no more than  
22 recovering any of the other two ways.

23 MR. MAUREY: Just like the fuel clause, it would have  
24 no impact on their earnings. It's a pass-through.

25 CHAIRMAN BAEZ: I want to go back to Connie. I mean,

1 look, this is -- and I understand that this is perhaps outside  
2 of, you know, regulatory theory is, perhaps, as you can see,  
3 not where I have most of my history. But if we can sit there  
4 and say, you know what, it's not quite -- obviously not a  
5 recovery clause, correct, and you're saying it is somewhere  
6 north of base rates, isn't that what you're saying?

7 MS. KUMMER: You could consider it that way in terms  
8 of the way we have spoken about all of these costs as being  
9 something extraordinary, something we don't normally have to  
10 deal with, or have not dealt with in the past. I can basically  
11 argue both sides. I can say that these are the kinds of costs  
12 that are normally included in base rates, so it is a base rate  
13 surcharge. You can also argue that these are extraordinary  
14 costs that are not typically set in base rates, because you  
15 don't anticipate or plan for them, so it is not really a base  
16 rate item. It is kind of an in-between animal that, quite  
17 frankly, we have just never been faced with it before, and I'm  
18 kind of at a loss as to what to call it other the cost-recovery  
19 clause.

20 CHAIRMAN BAEZ: Okay. But that is an interesting and  
21 very good point to make. It is something that we have never  
22 dealt with before. And so if it is something that we have  
23 never dealt with before, then let's not try and saddle it with,  
24 you know, traditional -- I mean, I don't know that it has to be  
25 saddled with traditional conventions.

1           And I will tell you honestly, because I can't get --  
2 I, in my mind, cannot saddle it with it is either/or, that is  
3 why I have trouble with, Commissioner Deason, your  
4 interpretation of the way that you are reading the settlement,  
5 because it forces me to call it something that I can't agree  
6 with calling it, you know, or treating it as something that I  
7 don't agree it is.

8           It's not so much that -- I mean, I will tell you  
9 what, the number comes down, you know, you are looking at a \$40  
10 million break on immediate recovery anyway. I have already  
11 told you I would have problems putting the other 95 at risk.  
12 So when Mr. Willis says assurances, for my money they have got  
13 to be ironclad.

14           I mean, if what we are doing is reducing this to a  
15 phased recovery of sorts, I don't know that I'm that  
16 comfortable with it anyway, but now we are in the ballpark.  
17 But I just have a problem reading -- this is forcing me to read  
18 the stipulation in a way that I'm not comfortable doing.  
19 Really that is the bottom line for me.

20           COMMISSIONER DEASON: Mr. Chairman, I can respect  
21 that. I'm reading the stipulation differently. And I put --

22           CHAIRMAN BAEZ: That's okay, too.

23           COMMISSIONER DEASON: -- myself in the place of the  
24 signatories. And when they said that there would be no  
25 increase in base rates, I don't think they were thinking, well,

1 a surcharge would be okay, though. I think they were thinking  
2 that there is two types of rates, base rates and adjustment  
3 clauses. And obviously adjustments clause are continuous, and  
4 there is a process at the Commission, and those are evaluated,  
5 so the stipulation didn't affect recovery clauses, it said base  
6 rates. And I think when that wording was there, I think that's  
7 what was in the minds of the people that signed it, and I think  
8 that is what we approved. But I understand that there can be  
9 different interpretation, and I respect that.

10 CHAIRMAN BAEZ: Let me ask, perhaps, an academic  
11 question. If the rate case -- if Progress' rate case had been  
12 filed in 2004, all right, let's say we weren't in this nether  
13 land of recovery, okay, and they took that \$300 million and  
14 said, you know what, it cost us, and we throwing it into the  
15 rate case, and we want to get our 300 million back. How is it  
16 that we would deal with it?

17 MS. KUMMER: You need to check with the accountants  
18 down there.

19 CHAIRMAN BAEZ: Who am I causing problems for? Over  
20 here. Mr. Willis.

21 MR. WILLIS: You would probably put it on an  
22 amortization scale, probably over three to five years.

23 CHAIRMAN BAEZ: And how would that affect the money  
24 that we had on hand to deal with future storms, are or those  
25 two not related? I mean, now you see what --

1 MR. WILLIS: What I would say, in a rate case you  
2 would have to consider an annual accrual on top of that in a  
3 rate case to decide where you wanted that accrual to be.

4 CHAIRMAN BAEZ: And how much would the annual accrual  
5 -- I mean, now we are dealing with -- we have got to get an  
6 accrual -- would we be considering issues like getting the  
7 accrual big enough so that we would get the reserve big enough,  
8 you know, what would wind up being short-term problems, you  
9 know, given the late date. Would we consider things like that?  
10 I mean, do we have the capability to do things like that?

11 MR. WILLIS: We are considering that currently in the  
12 rate case. That is an issue to be resolved --

13 CHAIRMAN BAEZ: Whether it should be more than 6  
14 million?

15 MR. WILLIS: Absolutely.

16 CHAIRMAN BAEZ: What that about the replenishment  
17 issue? I mean --

18 MR. WILLIS: That would be the annual accrual that we  
19 would be considering in Progress' rate case.

20 CHAIRMAN BAEZ: And how fast we would do that, and  
21 things of that sort.

22 MR. WILLIS: Yes, it is an issue in the rate case.

23 COMMISSIONER DEASON: And let's get real here for a  
24 second. In the rate case itself, I'm sure it's probably going  
25 to be an issue. There is going to be an recovered regulatory

1 asset, even if you follow staff's recommendation. That is  
2 their recommendation to book it as such. And I'm sure there is  
3 probably going to be an issue in a rate case of, well, should  
4 we discontinue the surcharge, roll it into base rates? I mean,  
5 it seems to me that there could be a number of issues in the  
6 rate case as to how, you know, what the future accrual needs to  
7 be to get the reserve up to whatever an appropriate amount is.

8 I mean, these are things that are going to need to be  
9 talked about, it seems to me. You're not going to be able to  
10 avoid it in a full-blown rate case, it seems to me. You have  
11 got that regulatory asset on the books. Maybe staff was  
12 hopeful that it would not be an issue in the rate case, I don't  
13 know, but I think that may be a naive position.

14 MR. WILLIS: Well, the regulatory asset is going to  
15 be on the books, but the plan for recovery should already be  
16 there through the surcharge, or whatever method is implemented  
17 to recover that.

18 COMMISSIONER DEASON: Historically, the Commission in  
19 the past has put regulatory assets on the books, sometimes has  
20 some type of recovery mechanism, and usually that is considered  
21 an interim mechanism. And when you get to a base rate, you may  
22 continue what you did before or you may roll it into base  
23 rates. It's always a possibility. I'm not so sure that this  
24 would be any different. It would be something that at least  
25 could be discussed, would it not?

1 MR. WILLIS: It could be done. I would also indicate  
2 that my colleagues told me that under your proposed plan, there  
3 would have to be a plan for recovery over two or three years  
4 that you would have to indicate, also.

5 COMMISSIONER DEASON: Yes. Over what period of time?

6 MR. WILLIS: Yes, that would have to be included in  
7 your plan for recovery.

8 CHAIRMAN BAEZ: For which part? For the 190, or for  
9 the --

10 MR. WILLIS: For the 95 that was being -- for the  
11 regulatory asset.

12 CHAIRMAN BAEZ: Well, Commissioners, if there are  
13 other questions, or I'm not sure -- I think we need to take  
14 temperature on this.

15 COMMISSIONER DEASON: And I have not made a motion,  
16 Mr. Chairman, on this.

17 CHAIRMAN BAEZ: I recognize that. And, believe me, I  
18 think it got lively, so I appreciate the suggestion. We don't  
19 have a motion on the table. If we don't have any questions, we  
20 are going to need one soon, otherwise we are going to be  
21 sitting in silence for a while.

22 COMMISSIONER EDGAR: Can't have that. So, if,  
23 indeed, a motion is coming, I mean, I realize the hour is  
24 getting late, but some new ideas have been discussed here, some  
25 new numbers. I'm just not as spontaneous an actor as

1 Commissioner Deason. And, again, I know that the hour is  
2 getting late, but I am kind of, I think, where Commissioner  
3 Bradley is. I need to see the numbers, I need to understand a  
4 little better what those numbers are. And I'm going to have to  
5 ask for another ten minutes to try to think it through and get  
6 the numbers to add up in my mind, if, indeed, that is where we  
7 are headed.

8 CHAIRMAN BAEZ: Well, I will indulge you,  
9 Commissioner Edgar. I don't know if Commissioner Deason was  
10 intending on making a motion.

11 COMMISSIONER DEASON: Mr. Chairman, I'm not intending  
12 to make the motion unless there is some show of support. I  
13 mean, I'm not trying to be a rogue person over here. I'm just  
14 trying to throw out what I think may be possible solutions.  
15 But, at the same time, if there is a reluctance to deviate from  
16 a more normal course, or at least one that has been anticipated  
17 thoroughly by staff's recommendation, I understand that.

18 CHAIRMAN BAEZ: I appreciate that, Commissioner. And  
19 I also want to say that you may be many things, but a rogue you  
20 are not, and I would never think you as such. I really do  
21 appreciate the fact that you gave us something to really  
22 consider and talk about. I won't belabor what my personal  
23 difficulties with it are, but I don't know if Commissioner  
24 Edgar --

25 COMMISSIONER DEASON: Let me say this. If the will



1 of the Commission is to do something more akin to staff's  
2 recommendation, it gives me some concern that I think it could  
3 be in possible violation of the stipulation, but given the  
4 overall requirement of this Commission to do what we think is  
5 in the public interest, I can support that. I was just looking  
6 at alternatives.

7 COMMISSIONER EDGAR: Okay. I'm going to ask for the  
8 indulgence.

9 CHAIRMAN BAEZ: Okay.

10 COMMISSIONER EDGAR: Thank you.

11 CHAIRMAN BAEZ: We'll break for ten minutes.

12 (Recess.)

13 CHAIRMAN BAEZ: We'll go back on the record.

14 Commissioners, when we last tuned in, we were sitting  
15 in silence, weren't we? Yes. At this point, I don't know if  
16 any of you have any other questions that you need to ask staff.  
17 If not, we can entertain a motion at this point.

18 COMMISSIONER EDGAR: Can I start with a comment and  
19 no motion?

20 CHAIRMAN BAEZ: Commissioner Edgar, you have the  
21 floor.

22 COMMISSIONER EDGAR: I guess I would like to say that  
23 I appreciate the out-of-the-box thinking, and will at future  
24 meetings, as well.

25 COMMISSIONER DEASON: This is a Dear John letter, I

1 can tell. (Laughter.)

2 CHAIRMAN BAEZ: It's not you, Commissioner Deason, it  
3 is me.

4 COMMISSIONER BRADLEY: Dear John. Dear Terry.

5 COMMISSIONER EDGAR: Maybe I should stop there.

6 CHAIRMAN BAEZ: Why go on when only one word will do.  
7 Go ahead, Commissioner. I'm sorry.

8 COMMISSIONER EDGAR: I do believe that as we all have  
9 said, and as, again, the testimony in the record reflects that  
10 we are dealing with some very unique and very extraordinary  
11 circumstances, and sometimes you just have to bite the bullet  
12 and make the tough choice and move on. And I think this may be  
13 one of those times.

14 CHAIRMAN BAEZ: Thank you, Commissioner Edgar.  
15 Commissioners, a motion?

16 COMMISSIONER BRADLEY: Well, I concur with what  
17 Commissioner Edgar has said. And by all means I can very  
18 seldom disagree with Commissioner Deason, and today is not a  
19 day that I disagree with him, but I think that -- I'm a person  
20 who is more concrete, and I can see, and I see these figures,  
21 and I have read this recommendation. And after reading over it  
22 again this morning, I kind of concluded that this is probably a  
23 good recommendation for everyone, even though I know that there  
24 are some folks out there who have a difference of opinion.  
25 But, you know, we are here to make some tough choices, and this

1 is one of them. So I'm just going to move staff.

2 CHAIRMAN BAEZ: There is a motion. Is there a  
3 second?

4 COMMISSIONER DEASON: Mr. Chairman, I will -- this  
5 may be a little surprise, but I will second the motion. I see  
6 that my efforts have been in vain.

7 CHAIRMAN BAEZ: No, not in vain.

8 COMMISSIONER DEASON: They may have stimulated some  
9 discussion and some thought, and that is what this whole  
10 deliberative process is about. And one thing is for sure, it  
11 is certainly obvious that we don't talk about these things out  
12 of the sunshine. This was a total surprise to my colleagues  
13 when I came out -- and I apologize for that -- but obviously it  
14 is something we can't talk about.

15 CHAIRMAN BAEZ: Not at all. But forty-five minutes  
16 and two bathroom breaks later, I think your point is well  
17 taken.

18 COMMISSIONER DEASON: But I will second the motion.

19 CHAIRMAN BAEZ: There is a motion and a second on  
20 Issue 15. All those in favor say aye.

21 (Unanimous affirmative vote.)

22 CHAIRMAN BAEZ: All those nay? No nays. Okay.

23 Commissioners, we are on Issue 16.

24 COMMISSIONER DEASON: Move staff.

25 CHAIRMAN BAEZ: There is a motion --

1 COMMISSIONER BRADLEY: Second.

2 CHAIRMAN BAEZ: -- and a second. All those in favor  
3 say aye.

4 (Unanimous affirmative vote.)

5 CHAIRMAN BAEZ: Issue 17.

6 COMMISSIONER BRADLEY: Just a minute.

7 CHAIRMAN BAEZ: Just a quick question.

8 Mr. Fletcher, you made two modifications. I guess it  
9 was on Issue 14. There were modifications to some, a larger  
10 starting number. This isn't impacted by --

11 MR. FLETCHER: It does not impact any other part of  
12 the recommendation.

13 CHAIRMAN BAEZ: I just wanted to make sure. Thank  
14 you.

15 Commissioners, questions or a motion.

16 COMMISSIONER DEASON: Move staff.

17 COMMISSIONER BRADLEY: Second.

18 CHAIRMAN BAEZ: A motion and a second. All those in  
19 favor say aye.

20 (Unanimous affirmative vote.)

21 CHAIRMAN BAEZ: Issue 18.

22 COMMISSIONER DEASON: Move staff.

23 COMMISSIONER BRADLEY: Second.

24 CHAIRMAN BAEZ: Motion and a second. All those in  
25 favor say aye.

1 (Unanimous affirmative vote.)

2 CHAIRMAN BAEZ: Issue 19.

3 COMMISSIONER DEASON: Move staff.

4 COMMISSIONER BRADLEY: Second.

5 CHAIRMAN BAEZ: Moved and seconded. All those in  
6 favor say aye.

7 (Unanimous affirmative vote.)

8 CHAIRMAN BAEZ: Issue 20.

9 COMMISSIONER DEASON: Move staff.

10 COMMISSIONER BRADLEY: Second.

11 CHAIRMAN BAEZ: I don't have a problem with the  
12 recommendation, I do have a question. The issue -- part of our  
13 discussion --

14 COMMISSIONER BRADLEY: Do you want me to withdraw the  
15 second?

16 CHAIRMAN BAEZ: Well, it is a quick question. I just  
17 want to make sure, in the eventuality, the bonding, the  
18 securitization option, how does -- and, again, that takes an  
19 affirmative step and much research by the company and so on,  
20 but having said that, how would it be affected, our approval of  
21 a surcharge potentially be affected by the securitization?

22 MR. MAUREY: It is staff's understanding that the  
23 surcharge could remain in place, and the company could recover  
24 the replenishment, if you will, of the storm damage reserve  
25 through securitization bonds, or they could come in and

1 petition to recover the whole thing. We would just net  
2 whatever has already been collected against the amount to be  
3 recovered.

4 CHAIRMAN BAEZ: Okay. So it is as simple as just  
5 netting as of a certain cut-off point or --

6 MR. MAUREY: That's right. And the Commission will  
7 decide that when it approves a financing order.

8 CHAIRMAN BAEZ: If one should materialize. Very  
9 well. There is a motion and a second on Issue 20. All those  
10 in favor say aye.

11 (Unanimous affirmative vote.)

12 CHAIRMAN BAEZ: Issue 21 was part of a stipulation.

13 Issue 22.

14 COMMISSIONER DEASON: Move staff.

15 COMMISSIONER BRADLEY: Second.

16 CHAIRMAN BAEZ: A motion and a second. All those in  
17 favor signify by saying aye.

18 (Unanimous affirmative vote.)

19 CHAIRMAN BAEZ: Issues 23, 24 and 25 were stipulated.

20 Issue 26.

21 COMMISSIONER DEASON: Move staff.

22 COMMISSIONER BRADLEY: Second.

23 CHAIRMAN BAEZ: A motion and a second. All those in  
24 favor signify by saying aye.

25 (Unanimous affirmative vote.)

1 CHAIRMAN BAEZ: And Issue 27.

2 COMMISSIONER DEASON: Move staff.

3 COMMISSIONER BRADLEY: Second.

4 CHAIRMAN BAEZ: A motion and a second. All those in  
5 favor say aye.

6 (Unanimous affirmative vote.)

7 CHAIRMAN BAEZ: I want to thank you, staff. You all  
8 went above and beyond. You were even thrown a curve ball or  
9 two here on the fly, and you responded remarkably well. This  
10 has been a very long docket with service hearings. And I  
11 forget how long, but was it a three-day hearing? They are all  
12 bleeding together. But it was a fairly long hearing with a lot  
13 of witnesses and much work to be done. And I personally want  
14 to thank you all. I hope I can speak for the rest of the  
15 Commissioners. Thank you for your efforts. It was a very  
16 difficult issue, but I think we had a good result for the whole  
17 state.

18 Thanks again.

19 We are adjourned. Thank you.

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STATE OF FLORIDA )

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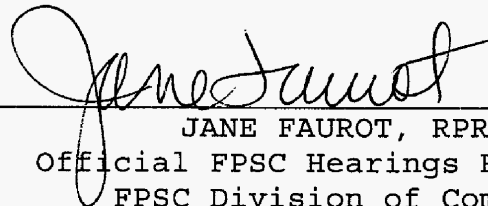
COUNTY OF LEON )

I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter Services, FPSC Division of Commission Clerk and Administrative Services, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 27th day of June, 2005.



JANE FAUROT, RPR  
Official FPSC Hearings Reporter  
FPSC Division of Commission Clerk and  
Administrative Services  
(850) 413-6732