STATE OF FLORIDA
FLORIDA PUBLIC SERVICE COMMISSION

Pre-filed Direct Testimony of

Mike Culver and Charlie Martin

On behalf of the Commercial Group

IN RE: PETITION FOR RATE INCREASE OF PROGRESS ENERGY FLORIDA, INC.

Docket No. 050078-EI

July 13, 2005

Q. Please state your names and positions.

A. My name is Mike Culver. I am the Senior Project Manager – Energy for J.C. Penney Corporation, Inc. ("JC Penney"). My name is Charlie Martin. I am the Energy Manager for Lowe's Companies, Inc. ("Lowe's"). We are testifying on behalf of the Commercial Group that is composed of BJ's Wholesale Club, Inc., Lowe's, JC Penney, and Wal-Mart Stores East, L.P.

Q. Have you provided outlines of your background and professional experience?

A. Yes, these are attached as Appendix A hereto.

Q. Are you sponsoring any exhibits with your testimony?

A. Yes. We are sponsoring one exhibit, CG Exhibit No. __ (CM-1), which is a portion (electric providers in the Southeast) of the Edison Electric Institute's ("EEI's") Typical Bills and Average Rates Report for electric providers (Summer 2004-Winter 2005).

Q. Please describe generally your operations in the State of Florida.

A. Together our companies operate approximately 400 retail establishments in Florida, including a number of distribution centers. A substantial number of these facilities receive retail electric service from Progress Energy Florida, Inc. ("PEF"). We employ well over 100,000 employees at our Florida operations alone and purchase several billion dollars annually in goods and services from Florida suppliers. In a period in which industrial job creation may be slowing, large commercial facilities such as ours are one of the key drivers of the Florida economy. Indeed, our companies pay billions of dollars in annual salaries and benefits to our Florida employees and taxes into the state of Florida.

Q. Please describe your operations.

A. Our companies operate retail facilities across the country. These facilities receive electric service from hundreds of electric providers under varied rate schedules and are subject to varying degrees of regulation by state public service commissions.

Q. Please describe the purpose of your testimony and summarize your testimony.

A. Our panel is providing testimony on whether PEF deserves a 50 basis point ROE performance incentive adder for superior service, the impact PEF's proposed rate increase would have on our facilities and operations, and background for the testimony of our group's other witness, Mike O'Sheasy, concerning a Real-Time-Pricing ("RTP") rate proposal. In general, we find PEF's customer service to be adequate and comparable to that of other electric providers that serve our facilities. We find that PEF's rates, however, are substantially higher than those of our other electric providers, and that PEF's rate schedules could be better tailored to our facilities. Accordingly, we are proposing an addition to PEF's rate offerings. With respect to how the proposed rate increase would affect our facilities, the potential cost impact would indeed be great.

Q. Do you believe that PEF should receive an extra return on investment as a reward for superior service?

A. No. As mentioned above, our facilities are served by hundreds of electric service providers across the country. In our experience, PEF provides average to good electric service and we generally have a positive relationship with PEF. However, we do not find PEF's service to be superior to that of most other comparable electric service providers. One important way that we judge service is by comparing the rates the service provider charges. With respect to electric bills that we receive from PEF, the Company's

commercial rates are substantially higher than those of many similar electric utilities. In fact, as shown by CG Exhibit No. __ (CM-1), PEF's commercial rates are higher than those of any other electric provider in the Southeast that is listed by EEI. Dr. Cicchetti cites Georgia Power Company in his testimony (p. 44) concerning the ROE adder. Georgia Power, is another significantly sized electric utility in the Southeast. We note by way of example that Georgia Power Company recently received a substantial ($500 million) fuel rate increase. Nevertheless, even after that increase, the fuel rates that PEF charges us are much higher than those of Georgia Power (2.42¢/kWh). Similarly, the exhibit CM-1 shows the commercial rates of Georgia Power overall to be significantly lower than those of PEF. With PEF requesting a further rate increase, PEF will be even less competitive as far as rates are concerned. Accordingly, with PEF's rates already being comparatively high, we do not believe those rates should be raised further to reward PEF for what PEF argues is superior service.

Q. Please describe your evaluation of PEF's customer service.

A. We have found that PEF's customer service is adequate to good and we appreciate that service. Nevertheless, we cannot say that the customer service of PEF is superior to that of most other electric providers of its size.

Q. You mentioned a concern with PEF's rate options. Please describe your concern.

A. A number of electric providers offer rate schedules that fit our facility load profiles and that enable large commercial customers like our companies to capture benefits from our substantial in-house energy management efforts, as well as the energy efficiencies that we build into our facilities. Since Dr. Cicchetti mentioned it, Georgia Power Company is one such example in that it provides a very successful Real Time Pricing ("RTP") tariff

that is very popular with its commercial and industrial customers. Our consultant, Mr. O'Sheasy, presents a similar RTP proposal for PEF in his testimony.

Q. Has PEF proposed any new rate schedules in this proceeding that might better fit the load profiles of your facilities?

A. No, it has not. We hope therefore that PEF will consider carefully Mr. O'Sheasy's rate design proposal.

Q. Are there any other rate design alternatives that you would like PEF to consider?

A. Yes. In order to make the time of use rates more useful to commercial customers, PEF should reduce the length of the on-peak hours, which length currently lasts up to nine hours, and provide more opportunity for higher load factor customers to capture a portion of the benefits that the PEF system receives from the higher load factor usage pattern. We have a number of other suggestions that we would be glad to discuss with PEF.

Q. Please briefly describe some of the ways your companies design energy efficiencies into your facilities.

A. Our companies have centralized energy management systems in place to control energy usage at our individual facilities. We design our facilities to be energy efficient by incorporating technological advances into our facilities. Such advances include (among other things) high efficiency lighting and HVAC units, daylighting controls that allow us to use daylight instead of artificial light, and parking lot lighting photo cell controls.

Q. You mentioned that you are concerned with the rate increase that PEF has proposed. How would the proposed increase affect your operations?

A. As we mentioned above, PEF's commercial rates are already significantly higher than those of many other electric providers and, according to the EEI data, may be the highest

of any similar electric utility in the Southeast. In this case, PEF is proposing to increase commercial rates even further with GS-2, GSD, CS, IS and the SS rates to rise by a whopping 20 percent! Energy costs are the second highest operating costs at our facilities and such a large increase in rates will greatly impact our operations. For operations such as distribution centers that can locate in other states or service territories, utility costs are a significant factor toward our choosing a non-PEF location. We urge the Commission to take a hard look at the proposed rate increase and act to minimize rate shock to any customer group.

Q. Do you have any observation on Mr. Slusser's class cost of service analysis?

A. Yes. We have not performed any detailed alternative cost of service study. However, even a cursory review shows that something appears to be wrong with Mr. Slusser's analysis.

Q. Please explain.

A. Our experience has been that cost studies performed by other electric utilities typically show commercial customers are paying more than their share of system costs (above parity) even though commercial rates typically are lower than residential rates. However, as shown by EEI in the attached exhibit CG-1, PEF's commercial rates are comparable to its residential rates – yet Mr. Slusser alleges that PEF's commercial classes are substantially below parity. Therefore even at a general level, something appears to be wrong with Mr. Slusser's analysis.

Q. Does this complete your testimony?

A. Yes, it does.

Professional Profile – Mike Culver

BUSINESS ADDRESS
JC Penney Company, Inc., 6501 Legacy Drive, MS: 2112, Plano, Texas 75024.

POSITION
Senior Project Manager – Energy. My responsibilities include the development and management of energy strategies for the company. I am also responsible for the procurement of electricity and natural gas, energy reporting, bill payment, investigating and testing new technologies, and capital investment in the energy infrastructure.

EDUCATION AND EXPERIENCE
I received a B.S. in Electrical Engineering from Texas A&M University in 1990 and am a Registered Professional Engineer in Texas. For twelve years, I was employed by Xcel Energy in a variety of positions, including (in chronological order) Division Engineer, District Engineer, Sales Account Representative, and Account Executive – Commodity Sales. I have been employed by JC Penney for the past two years as Senior Project Manager – Energy.

PREVIOUS TESTIMONY
I have previously testified before the California Public Utilities Commission in:

Application of Pacific Gas and Electric Company for Authority to Implement Default CPP RateOptions for Large Customers, Application 05-01-016, (Filed January 20, 2005)
_____)

Application of San Diego Gas & Electric Company (U902-E) for Adoption of a 2005 Default Critical Peak Pricing Structure for Commercial and Industrial Customers with Peak Demands Exceeding 300 kW., Application 05-01-017, (Filed January 20, 2005)
_____)

Southern California Edison Company's (U338-E) Application for Approval of Rate Design Proposals for Large Customers., Application -05-01-018, (Filed January 20, 2005)
_____)

ATTACHMENT A

Professional Profile - Charles A. Martin, P.E., C.E.M.

Over 27years of experience in the field of energy management and energy engineering.

EMPLOYMENT

Energy Manager, Lowe's Companies, Inc. **2002-Present**

- Manage utilities payment for Fortune 60 company, including electricity, natural gas, water and sewer for retail, distribution, and corporate facilities
- Responsible for utility budgeting for retail properties
- Directs Lowe's energy procurement regarding electricity and natural gas for all facilities
- Facilitates technical assessment of energy efficiency and sustainability
- Conducts studies and facilitate implementation of energy conservation measures, demand control, and operating cost reduction strategies

Chief Consultant – Energy Services, The Foresight Group, Raleigh, NC **2000 – 2002**

- Conducted engineering, project development and supply side studies for industrial facilities, Class-A office buildings, education and health care facilities resulting in cooling, ventilation, lighting system improvements, process optimization and distributed generation projects
- Developed and implemented an energy utilization model for Lowe's Home Improvement
- Developed and delivered energy auditor training for Duke Energy
- Developed industrial and commercial energy utilization tools and training for Progress Energy

Carolina Power and Light Company (CP&L), Raleigh, NC **1995 - 2000**

- Supervised the day-to-day activities of the Facilities Energy Services Team (10 engineers and analyst positions)
- Served as primary interface with marketing, preparing cost estimates for engineering studies, scheduling and assigning work
- Reviewed engineering documents including preliminary survey reports, detailed survey reports, as-built drawings, and commissioning reports
- Provided direct engineering support in delivering Asset Management and Energy Partnership products

EDUCATION **Virginia Polytechnic Institute and State University (VPI),** Blacksburg, VA
Bachelor of Science, Mechanical Engineering

RECOGNITIONS

- Registered Professional Engineer (North Carolina & South Carolina)
- Certified Energy Manager
- ASHRAE Regional Award of Merit – 1998
- ASHRAE Regional Officer of the Year - 1997
- Key Performer Award – BEST (Building Energy Simulation Tools)
- Volume X - Energy Code for North Carolina, Adhoc Energy Committee, NC Department of Insurance – 1991 to 1996

ORGANIZATIONS

- Association of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE)

EEI Typical Bill Cost for Residential Users
Weighted Average Costs in ¢/kWh for Summer 2004 and Winter 2005*

Line	Company		Residential 750 kWh	Residential 1000 kWh
1	Conectiv	VA	10.31	9.97
2	Tampa Electric Company	FL	10.13	9.84
3	Entergy Mississippi, Inc.	MS	10.02	9.32
4	Progress Energy Florida	FL	9.54	9.27
5	Dominion North Carolina Power	NC	9.49	9.17
6	Entergy Gulf States, Inc.	LA	9.10	8.95
7	**Florida Power & Light Company**	**FL**	**8.82**	**8.88**
8	South Carolina Electric & Gas Company	SC	9.09	8.84
9	Entergy Louisiana, Inc.	LA	8.95	8.82
10	Mississippi Power Company	MS	9.50	8.79
11	Dominion Virginia Power	VA	9.13	8.72
12	Entergy Arkansas, Inc.	AR	8.85	8.62
13	Progress Energy Carolinas, Inc.	NC	8.83	8.61
14	Progress Energy Carolinas, Inc.	SC	8.77	8.42
15	CLECO Power LLC	LA	8.78	8.39
16	Gulf Power Company	FL	8.69	8.34
17	Duke Power Company	NC	8.20	8.02
18	Entergy New Orleans, Inc.	LA	8.08	7.93
19	Alabama Power Company	AL	8.34	7.85
20	OG&E Electric Services	AR	7.65	7.28
21	Georgia Power Company	GA	7.38	7.25
22	Duke Power Company	SC	7.37	7.17
23	Monongahela Power Company	WV	7.14	7.01
24	Potomac Edison Company	WV	7.14	7.01
25	Union Light, Heat and Power	KY	6.94	6.82
26	Potomac Edison Company	VA	6.99	6.81
27	Empire District Electric Company	AR	7.00	6.52
28	Louisville Gas & Electric Company	KY	6.67	6.50
29	Southwestern Electric Power Company	AR	6.69	6.46
30	Southwestern Electric Power Company	LA	6.29	6.11
31	AEP (Kentucky Power Rate Area)	KY	6.35	6.07
32	AEP (Wheeling Power Rate Area)	WV	6.22	5.88
33	AEP (Appalachian Power Rate Area)	VA	6.06	5.74
34	Old Dominion Power Company	VA	5.77	5.59
35	AEP (Appalachian Power Rate Area)	WV	5.85	5.53
36	Kentucky Utilities Company	KY	5.39	5.22
37	AEP (Kingsport Power Rate Area)	TN	5.37	5.13

* Data sorted by 1,000 kWh

EEI Typical Bill Cost for Commercial Users
Weighted Average Costs in ¢/kWh for Summer 2004 and Winter 2005*

Line	Company		Commercial 500 kW 150,000 kWh	Commercial 500 kW 180,000 kWh
1	Progress Energy Florida	FL	9.52	9.32
2	Tampa Electric Company	FL	8.30	7.88
3	Entergy Mississippi, Inc.	MS	8.07	7.81
4	Entergy Gulf States, Inc.	LA	7.95	7.70
5	Entergy Louisiana, Inc.	LA	7.80	7.56
6	**Florida Power & Light Company**	**FL**	**8.02**	**7.55**
7	Conectiv	VA	7.79	7.41
8	Alabama Power Company	AL	7.93	7.40
9	South Carolina Electric & Gas Company	SC	7.82	6.96
10	Dominion North Carolina Power	NC	7.37	6.96
11	CLECO Power LLC	LA	7.34	6.92
12	Entergy New Orleans, Inc.	LA	7.05	6.68
13	Mississippi Power Company	MS	6.97	6.46
14	Gulf Power Company	FL	6.94	6.43
15	Georgia Power Company	GA	7.01	6.29
16	Duke Power Company	NC	6.27	6.07
17	Progress Energy Carolinas, Inc.	SC	6.45	5.98
18	Progress Energy Carolinas, Inc.	NC	6.33	5.86
19	Dominion Virginia Power	VA	6.57	5.85
20	Louisville Gas & Electric Company	KY	6.50	5.82
21	Duke Power Company	SC	5.89	5.65
22	Union Light, Heat and Power	KY	6.10	5.62
23	AEP (Kentucky Power Rate Area)	KY	5.75	5.53
24	Monongahela Power Company	WV	5.82	5.41
25	Potomac Edison Company	WV	5.82	5.41
26	Entergy Arkansas, Inc.	AR	5.73	5.29
27	Empire District Electric Company	AR	5.65	5.28
28	Old Dominion Power Company	VA	5.45	5.12
29	OG&E Electric Services	AR	5.42	5.10
30	AEP (Appalachian Power Rate Area)	WV	5.37	5.08
31	AEP (Wheeling Power Rate Area)	WV	5.28	5.06
32	Potomac Edison Company	VA	5.51	5.04
33	AEP (Kingsport Power Rate Area)	TN	4.97	4.72
34	Southwestern Electric Power Company	LA	4.89	4.60
35	AEP (Appalachian Power Rate Area)	VA	4.95	4.45
36	Kentucky Utilities Company	KY	4.84	4.43
37	Southwestern Electric Power Company	AR	4.43	4.17

* Data sorted by 500 kW @ 180,000 kWh

EEI Typical Bill Cost for Industrial Users
Weighted Average Costs in ¢/kWh for Summer 2004 and Winter 2005*

Line	Company		Industrial 1,000 kW 400,000 kWh	Industrial 1,000 kW 650,000 kWh	
1	Gulf Power Company	FL	6.13	7.91	**
2	Tampa Electric Company	FL	7.69	6.95	
3	Entergy Gulf States, Inc.	LA	7.38	6.92	
4	Progress Energy Florida	FL	9.19	6.72	
5	Entergy Louisiana, Inc.	LA	7.04	6.61	
6	Conectiv	VA	7.22	6.56	
7	**Florida Power & Light Company**	**FL**	**7.30**	**6.49**	
8	Entergy Mississippi, Inc.	MS	7.27	6.43	
9	CLECO Power LLC	LA	6.70	5.97	
10	Entergy New Orleans, Inc.	LA	6.42	5.67	
11	Dominion North Carolina Power	NC	6.57	5.52	
12	Progress Energy Carolinas, Inc.	NC	6.73	5.41	
13	Progress Energy Carolinas, Inc.	SC	6.25	5.08	
14	Mississippi Power Company	MS	5.98	5.07	
15	Georgia Power Company	GA	6.44	4.95	
16	Union Light, Heat and Power	KY	5.38	4.55	
17	South Carolina Electric & Gas Company	SC	5.72	4.51	
18	Empire District Electric Company	AR	5.05	4.28	
19	Dominion Virginia Power	VA	5.46	4.22	
20	Duke Power Company	NC	5.08	4.20	
21	Alabama Power Company	AL	5.05	4.20	
22	Old Dominion Power Company	VA	4.75	4.14	
23	Monongahela Power Company	WV	4.90	4.08	
24	Potomac Edison Company	WV	4.90	4.08	
25	OG&E Electric Services	AR	4.43	4.03	
26	Potomac Edison Company	VA	4.66	3.89	
27	Southwestern Electric Power Company	LA	4.45	3.85	
28	Entergy Arkansas, Inc.	AR	5.06	3.79	
29	Duke Power Company	SC	4.70	3.74	
30	Louisville Gas & Electric Company	KY	4.71	3.69	
31	AEP (Kingsport Power Rate Area)	TN	4.10	3.68	
32	Southwestern Electric Power Company	AR	4.03	3.58	
33	AEP (Wheeling Power Rate Area)	WV	4.47	3.53	
34	AEP (Kentucky Power Rate Area)	KY	4.50	3.50	
35	AEP (Appalachian Power Rate Area)	WV	4.28	3.25	
36	AEP (Appalachian Power Rate Area)	VA	3.87	3.01	
37	Kentucky Utilities Company	KY	4.11	2.93	

* Data sorted by 1,000 kW @ 650,000 kW
**Appears to be error in Gulf Power Company data for large user.