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Speaker

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Associate Public Counsel

July 13, 2005

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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COMMISSION
CLERK

RE: Petition for Rate Increase by Progress Energy Florida, Inc.
Docket No. 050078-EI

Dear Ms. Bayó:

Enclosed are an original and twenty-five (25) copies of the Direct Testimony of Hugh Larkin, Jr. on behalf of the Office of Public Counsel for filing in the above-referenced docket.

Also enclosed is a 3.5 inch diskette containing the Direct Testimony of Hugh Larkin, Jr. in Microsoft Word format. Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

Sincerely,

Joe McGlothlin

Joseph A. McGlothlin
Associate Public Counsel

JAM/dsb
Enclosures

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OM 5
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Hugh Larkin, Jr. has been furnished by electronic mail and U.S. Mail on this 13th day of July, 2005, to the following:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Rate Increase by	)	
Progress Energy Florida, Inc.	)	DOCKET NO. 050078-EI
	)	Filed July 13, 2005

DIRECT TESTIMONY OF

HUGH LARKIN, JR., CPA

ON BEHALF OF THE

FLORIDA OFFICE OF PUBLIC COUNSEL

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DIRECT TESTIMONY OF HUGH LARKIN, JR.

ON BEHALF OF THE CITIZENS OF FLORIDA

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PROGRESS ENERGY FLORIDA, INC.

DOCKET NO. 050078-EI

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the States of Michigan and Florida and the senior partner in the firm Larkin & Associates, PLLC (L&A), Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.) Larkin & Associates, PLLC has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utility cases.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

A. Yes. I have testified before the Florida Public Service Commission on numerous occasions during the past 29 years. I have also testified before Public

Service/Utility Commissions in 35 state jurisdictions, United States District Courts, the Federal Energy Regulatory Commission and the Canadian Natural Energy Board.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, identified also as Exhibit ___(HL-1), which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel (OPC) to review the rate request of Progress Energy Florida, Inc. (PEF or Company). Accordingly, I am appearing on behalf of the Citizens of the State of Florida (Citizens).

Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

A. Yes. James Rothschild, Jacob Pous, and Helmuth W. Schultz, III and Donna M. DeRonne, of my firm, are also presenting testimony. (Mr. Pous' testimony is being sponsored jointly by OPC and the Florida Industrial Power Users Group).

Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

A. I will address, in order, the Company's Overall Financial Summary; Policy Issues; and Rate Base.

II OVERALL FINANCIAL SUMMARY

Q. WOULD YOU PLEASE SUMMARIZE THE RESULTS OF THE IMPACT OF ALL OPC WITNESSES ON THE PROJECTED 2006 TEST YEAR AND THE RECOMMENDATION REGARDING THE CHANGE IN RATES WHICH RESULTS FROM THOSE RECOMMENDATIONS?

A. Yes. As shown on the summary presented by OPC's witness Donna DeRonne, the rates currently in affect for PEF should be reduced by $360,496,000. This includes the impact of each of the witnesses for OPC's recommended adjustments and the amortization of the surplus reserve for depreciation and amortization.

III. POLICY ISSUES

Q. WHAT ISSUES WILL BE DISCUSSED UNDER THE HEADING "POLICY ISSUES"?

A. I will be addressing the following policy issues: Surplus Accumulated Reserve for Depreciation and Amortization and Deferred Income Taxes Debits included as a reduction of cost free capital provided by ratepayers.

Surplus Accumulated Reserve for Depreciation and Amortization

Q. BOTH THE DEPRECIATION STUDY FILED BY PEF WITH THE COMMISSION AND THE ANALYSIS OF THAT STUDY BY JACOB POUS OF DIVERSIFIED UTILITY CONSULTANTS, INC. SHOW THAT THE RESERVE FOR DEPRECIATION AND AMORTIZATION HAS AN ACCUMULATED BALANCE WHICH EXCEEDS BY FAR THE RESERVE THAT NEEDS TO HAVE BEEN ACCUMULATED. GIVEN THE

REMAINING LIVES, DEPRECIATION RATES AND CURRENT BALANCE IN THE ACCUMULATED RESERVE, WHAT SHOULD HAPPEN TO THIS SURPLUS RESERVE BALANCE?

A. As developed in detail in the testimony of OPC witness Jacob Pous, once needed adjustments are made, PEF's depreciation reserve excess is approximately $1.2 billion. Given the magnitude of the reserve excess, the Commission should take corrective action of the type it frequently has fashioned in situations involving reserve deficiencies of depreciation and amortization.

Q. WHAT POLICY HAS THE COMMISSION FOLLOWED IN THE PAST REGARDING DEFICIENCIES IN THE ACCUMULATED RESERVE FOR DEPRECIATION AND AMORTIZATION?

A. The Commission has ordered that deficiencies in the reserve for depreciation and amortization should be eliminated as quickly as possible. It would only be appropriate that the Commission apply to a significant reserve excess situation the remedy that it has found to be appropriate in similar situations regarding reserve deficiencies. That is, the surplus should be eliminated from the reserve as soon as possible. The Commission has on a number of occasions ordered that reserve deficiencies be amortized over a four or five-year period.

Q. CAN YOU PROVIDE SOME EXAMPLES OF SUCH SITUATIONS?

A. Yes. In each of the following dockets, the Commission determined that the recovery of a deficiency in a reserve was appropriate over a short period of time:

Company	Docket No.	Order No.	Date
General Telephone Co.	840049-TL	14929	09/11/85

The Commission stated in regards to a depreciation reserve deficit:

> "We believe that it is in the interest of both Gentel's customers and its stockholders that the Company's $32,138,000 deficit be written off in as short a time as practicable. In this case we find that a five-year period is appropriate."

Company	Docket No.	Order No.	Date
United Telephone Co.	871269-TL	18736	01/26/88

The Commission stated in regards to acceleration of an amortization:

> "Upon review, we will approve United's proposal to make a one-time charge to depreciation of $14,589,704 in 1987"
>
> \- - - - - -
>
> "This action, as modified, will comply with our policies of correcting reserve imbalances as rapidly as possible…"

Company	Docket No.	Order No.	Date
Gulf Power	880053-EI	19901	08/30/88

> "For the year 1988, the approved amortization expense shall be applied to the write-off of the deficit."

Company	Docket No.	Order No.	Date
City Gas Company	890203-GU	22115	10/31/89

The Commission approved the continuation of a reserve deficit amortization to be applied to "prospective" reserve deficits.

"Ordered that the $47,934 of expense which had been applied to the 'Historic' reserve deficit through the year 1988 be added in 1989 and subsequently to the $28,166 expense associated with the write-off of the 'prospective' reserve deficit, ..."

Company	Docket No.	Order No.	Date
Alltel Florida, Inc.	891026-TL	23833	12/04/90

The Commission stated in regards to reserve deficiency:

"A five year write-off period for this deficiency appears to be as fast as economically practicable for this Company."

Company	Docket No.	Order No.	Date
Gulf Telephone Company	900599-TL	24004	01/22/91

The Commission authorized a write-off of a reserve imbalance:

"This imbalance is based on our present expectation for the replacement of copper cable by fiber and should be written off as fast as practicable. We find a two year period to be appropriate for the write-off of this deficiency."

Company	Docket No.	Order No.	Date
Southern Bell	820449-TP	12290	07/22/83

In this docket, the Commission noted that Southern Bell's reserve deficit was $265.6 million on a composite basis. The Commission order stated:

"That portion of the deficit that is attributable to past incorrect estimates of life and salvage factors and historic technological

> change and growth should be recovered over a shorter period. Therefore, we are ordering a 5 year amortization period for this portion of the deficit."

The Company recovered $123 million over the 5 year amortization.

Company	Docket No.	Order No.	Date
United Telephone Co.	830870-TP	12857	01/10/84

The Commission ordered elimination of a $36 million reserve deficit by ordering two amortization schedules. The second was as follows:

> "That portion of the deficit that is attributable to past incorrect estimates of life and salvage factors and historic technological change and growth should be recovered over a shorter period . . . the amount to be amortized over a 5-year period is $32,435,000."

Company	Docket No.	Order No.	Date
North Florida Telephone	820477-TP	12864	01/12/84

The Commission authorized the following:

> "The Commission orders a 13 year amortization of $608,002 and a 5 year amortization of $3,721,295."

Company	Docket No.	Order No.	Date
Gulf Telephone	870964-TP	18642	01/04/88

The Commission approved the following:

"Initially, the prospective reserve imbalance was to be amortized over a 14-year term; however, we now believe its entire balance should be written off over the period 1987-1989."

Q. I NOTE THAT MOST OF THE EXAMPLES YOU GIVE ARE EITHER TELEPHONE COMPANIES OR GAS COMPANIES. HAS THE COMMISSION FOLLOWED THE SAME POLICY REGARDING ELECTRIC UTILITIES?

A. Yes. In Docket No. 970410-EI involving a Proposed Agency Action related to the Florida Power & Light Company (FPL), the Commission approved the continuation of an amortization of the underrecovery of a number of costs. The Proposed Agency Action would continue through the years 1998 and 1999 and maintain amortizations which would recover $1,140,392,000 of costs to FPL. The majority of the costs relate to nuclear decommissioning reserve deficiencies and depreciation reserve deficiencies.

FPL supported the continuation of the amortization which would have allowed FPL to collect the total of $1.1 billion over a four-year period.

In Docket No. 970410-EI, the Commission agreed with the FPL witness that eliminating the deficiency in the shortest time possible was beneficial.

Q. WHAT IS YOUR UNDERSTANDING OF THE COMMISSION'S RATIONALE FOR AMORTIZING RESERVE DEFICIENCIES OVER A FAIRLY SHORT PERIOD OF TIME?

A. Part of the Commission's consideration was the fact that part of the deficiency which was amortized over a short period of time resulted from past misestimations of depreciation expense and decommissioning costs. It appears that the Commission reasoned that since these services had already been provided and that ratepayers had already received the benefit of such services, that it would be appropriate to recover such costs over a short period of time. This had the effect of charging to current ratepayers those costs and avoid spreading them to ratepayers far into the future. This practice of avoiding intergenerational inequities seems to be an underlying factor in the Commission's thought process.

Q. WOULD THE SAME PRINCIPLES BE APPLICABLE TO RESERVE EXCESSES?

A. Obviously, yes. The reserve excess grew out of past inaccurate estimates of depreciation and decommissioning costs. These over estimates were recovered from past ratepayers and since those services have already been rendered it would be appropriate to return, as soon as possible, to ratepayers any excess. This would have the same practical effect of avoiding intergenerational inequities, which the Commission recognized when it recovered deficiencies from ratepayers for the benefit of the stockholders.

Q. HAS PEF RECOGNIZED THE COMMISSION'S LONG-STANDING PRACTICE OF AVOIDING INTERGENERATIONAL INEQUITIES BY ALLOWING RECOVERIES OVER A RELATIVELY SHORT PERIOD OF TIME?

A. Yes, it has. In OPC's Second Set of interrogatories, Question 81, the Company was asked the following question and responded, in pertinent part, as shown below:

> 81. MMR Program. Explain why the net book value of the retired meters should be allowed to be recovered over a five-year period and provide the precedent relied on for recovery of the cost.
>
> **Answer:**
>
> Consistent with the FPSC's long-standing practice of avoiding intergenerational inequities in rate making practices and allowing appropriate recovery of otherwise unrecovered costs, the Company has proposed a 5 year amortization of the net book value of the retired meters. Normal plant and depreciation accounting practices for these meters would result in a recovery period for these unrecovered costs of likely more than 20 years.

As can be seen, the Company agrees that it is appropriate to recover costs over a short period of time when necessary to avoid intergenerational inequities. It would be unfair to ratepayers to not follow the same policy and principle in returning very large depreciation reserve excesses to ratepayers over a short period of time.

Q. HAVE THERE BEEN INSTANCES WHERE THE COMMISSION HAS ACTUALLY CHANGED RATES, THAT IS, INCREASED RATES TO RECOVER DECOMMISSIONING COSTS WHICH WERE CONCLUDED TO BE TOO LOW?

A. Yes. In Docket No. 810100-EU, Order No. 12356, issued August 12, 1983, regarding an investigation on the Commission's own motion into the appropriate accounting and ratemaking treatment of decommissioning and depreciation costs of nuclear powered generators, the Commission found it was appropriate to raise rates to recover additional decommissioning costs. The Commission determined that decommissioning costs should be separated from depreciation rates and raised significantly. The Commission found that it was not appropriate to wait until the next rate case in order to start recovering these costs. The Commission concluded the following:

(4) "The appropriate additional annual revenue requirement sufficient to permit each company to recover its additional expense associated with the above revision to its accrual and funding of its reserve is $12,474,046 for Florida Power & Light Company and $2,122,000 for Florida Power Corporation.

(5) Revision of the rates of each company to recover this additional revenue requirement is necessary to correct rates which are unjust, unreasonable, insufficient and unjustly discriminatory. Such revision should occur as soon as reasonably necessary. Each company is authorized to apply an adjustment factor to its customers' bills, as of October 1, 1983, until such time as its base rates are revised to recover this additional revenue requirement. The adjustment factor shall be determined in accordance with this order.

(6) Each company has incurred a revenue deficiency, as of January 1, 1983, due to the requirement to begin funding its

> decommissioning reserve as of that date and the requirement to revise its decommissioning accrual upwards. We deferred recovery of this deficiency until a later date. Each company should recover its deficiency via a one time adjustment factor calculated in accordance with this order, to be effective October 1, 1983, through March 31, 1984. The revenue deficiency for Florida Power Corporation is $186,733. The revenue deficiency for Florida Power & Light Company shall be determined in conjunction with the August fuel adjustment hearings."

As can be seen from the above quoted dockets, the Commission followed a policy of returning to stockholders in the shortest time possible any reserve deficiency. In the instance of nuclear decommissioning expense for electric utilities, the Commission raised rates for that cost when it was determined that rates were to low to recover the total found appropriate.

In the current docket, PEF is asking for a change in rates. The amount of depreciation expense requested by the Company directly affects the size of its proposed revenue requirements. In this proceeding the Commission has the opportunity to correct the reserve excess and reflect that corrective measure in the rates customers pay. Because of the magnitude of the reserve excess it might be appropriate to approach the matter in a manner designed and intended to address any potential concerns regarding the impact on PEF's financial integrity. OPC witness Jacob Pous has done so in his recommendation on how the reserve excess should be treated and returned to ratepayers for ratemaking purposes.

<u>Accrued Deferred Income Taxes</u>

Q. ARE THE DEFERRED INCOME TAXES SHOWN IN THE CAPITAL STRUCTURE PROPERLY STATED FOR RATEMAKING PURPOSES?

A. No, they are not.

Q. WHAT IS IMPROPER ABOUT THE LEVEL OF COST FREE CAPITAL SHOWN IN THE CAPITAL STRUCTURE ON SCHEDULE D-1a?

A. The deferred income tax credits represent income taxes paid by ratepayers that have not yet been paid to the United States Treasury. In essence, they are being held by the Company for payment to the Treasury in the future. Such credits are classified as an income tax liability. Because the Company enjoys the use of these monies supplied by customers until the time arrives to pay the taxes, they are treated as a source of cost free capital – i.e., the Company is not permitted to earn a return on them. For reasons I will explain below, these credits have been improperly reduced by PEF by the amount of deferred income tax debits. Deferred income tax debits, the "flip side" of deferred income tax credits, represent the increment of income taxes paid to the United States Treasury that are associated with the fact that certain of the expenses that PEF accrues in a given year are not deductible for tax purposes until a point in the future, when PEF will actually spend the money represented by the prior accrual.

Q. WOULD YOU PLEASE EXPLAIN IN MORE DETAIL HOW DEFERRED INCOME TAX LIABILITIES AND DEFERRED INCOME TAX ASSETS ARISE ON THE BOOKS OF PEF AND HOW THEY SHOULD BE TREATED FOR RATEMAKING PURPOSES?

A. Yes. Let's start first with an explanation of deferred income tax liabilities. These are credit balances on the Company's balance sheet, and they represent funds collected from ratepayers for income tax expenses prior to those taxes being due to the Treasury Department. In other words, ratepayers are paying income tax expenses in rates prior to the Company actually being required to make those payments to the U.S. Treasury Department.

Q. CAN YOU GIVE AN EXAMPLE OF HOW DEFERRED INCOME TAX LIABILITIES ARISE ON THE COMPANY'S BALANCE SHEET?

A. Although there are many sources of deferred income tax liabilities, the primary source is depreciation expense. Depreciation expense for tax purposes is calculated on a much different basis than depreciation expense for book purposes or for purposes of inclusion in rates paid by ratepayers. As an example, the nuclear plant on the Company's books, Crystal River 3 (CR3) is approximately 68% depreciated for book purposes at December 31, 2004. That is, plant cost has been charged as depreciation expense and recovered from ratepayers to the extent of approximately 68% of the cost. However, for income tax purposes, most of CR3 has been fully depreciated for a number of years. This is so because the depreciable life allowed for income tax purposes for nuclear plants is 15 years. That depreciation, computed for income tax purposes, was based on accelerated methods which allowed the Company to depreciate a greater portion of those facilities in the beginning years for tax purposes than in the latter years of the 15 year period. However, for book purposes, depreciation expense has been calculated on a straight line basis over the license period of the nuclear unit, which was 30 years. As you can see, there is a difference in depreciation for book and tax purposes. Ratepayers paid income tax expense in rates based on the longer lives of the nuclear plants, while the Company was paying income tax to the U.S. Treasury based on the shorter life of 15 years and accelerated depreciation. Thus, ratepayers were prepaying income tax expense prior to it being due to the U.S. Treasury Department. Since PEF had the use of these funds in its operations, they had a zero cost to the Company and are, therefore, included in the Company's capital structure as zero cost capital. Many commissions deduct zero cost capital directly from the rate base, which has the same effect of including them in the capital structure at zero cost.

Q. WON'T THE INCOME TAX EXPENSE PREPAID BY RATEPAYERS EVENTUALLY BE PAID TO THE U.S. TREASURY DEPARTMENT?

A. No, there will always be some balance in the deferred income tax liability account. This occurs because plant investment is not stagnate, but is dynamic, with new plant being added as old plant reaches the end of its depreciable life both for tax and book purposes. This tends to ensure that there is a prepayment by ratepayers, and thus, cost free capital is available to the Company on an ongoing basis.

Q. THAT EXPLAINS DEFERRED INCOME TAX LIABILITIES. WHAT IS A DEFERRED INCOME TAX ASSET AND HOW DOES IT ARISE?

A. Deferred income tax assets are payments to the U.S. Treasury Department of taxes on deductions which are not recognized by the Internal Revenue Code as deductions for income tax purposes in the same year in which they are recognized as expenses on the books of PEF.

Q. CAN YOU GIVE AN EXAMPLE OF AN EXPENSE WHICH IS RECOGNIZED FOR RATEMAKING AND BOOK PURPOSES, BUT IS NOT RECOGNIZED FOR INCOME TAX PURPOSES?

A. Yes. A major expense which is recognized for book purposes and included in rates, but not recognized for income tax purposes as a deduction in the year booked, is nuclear decommissioning accruals. While this future expense is recognized in the ratemaking process and included as an expense deduction in the ratemaking process, it will not qualify as a deduction for income tax purposes until the utility actually expends the money to decommission the unit in the future.

Q. WHY IS THAT SO?

A. Since no nuclear decommissioning cost has been incurred when the accrual is made, the IRS, does not recognize this as a cost for tax purposes. No decommissioning expense has been incurred as a result of accruing the future expenses therefore, the IRS does not recognize this as a current income tax deduction.

Q. PLEASE EXPLAIN HOW PEF IS REFLECTING THE DEFERRED INCOME TAX LIABILITIES AND THE DEFERRED INCOME TAX ASSETS IN THE CURRENT FILING.

A. PEF is offsetting the deferred income tax assets against the deferred income tax liabilities. This has the effect of reducing the cost free capital reflected in the capital structure, thus raising the overall cost of capital and, in effect, allowing the Company to earn a rate of return on the deferred income tax asset.

Q. WHAT IS WRONG WITH OFFSETTING THE DEFERRED INCOME TAX ASSETS AGAINST THE DEFERRED INCOME TAX LIABILITIES?

A. What is inappropriate about offsetting deferred income tax assets against the deferred income tax liabilities is that ratepayers are paying the tax which is represented by the deferred income tax asset in most instances. For instance, in the Commission's orders related to decommissioning cost, the Commission required a trust fund be set aside so that funds are available when the decommissioning actually occurs. However, the amount of dollars actually deposited in the trust fund is net of tax. In other words, ratepayers are paying a specific dollar amount, part of which is set aside in a trust fund for future decommissioning cost and part of which is used to pay the income tax on the decommissioning accrual because the accrual is not deductible for income tax purposes.

In Docket No. 810100-EU, Order No. 12356, dated 8-12-83 the Commission stated, on page 4:

> "All parties propose funding of the decommissioning reserve net of tax. We agree. The deduction of decommissioning expense from taxable income at the time of decommissioning, in addition to the funded reserve, should provide sufficient funds to complete decommissioning."

In the docket quoted above, the Commission authorized FPC, now PEF, to collect in rates $4,349,072. The order required the Company to set up a funded reserve for decommissioning of CR3 when decommissioning is required. However, because the order allowed for the reserve to be funded "net of tax," the full $4,349,072 was not deposited in the funded reserve. Only the net of tax amount of $2,671,418 would have been deposited in the funded reserve. The difference, $1,677,654 ($4,349,072 x tax rate of 38.575% = $1,677,654), would have been paid to the Internal Revenue Service and the State of Florida as income taxes because the accrual of decommissioning cost is not a current deduction. The taxes paid to the Treasury Department, as shown above, would have been recorded on the Company's books as part of a deferred tax asset balance. It is this balance by which the Company is reducing the cost free capital on Schedule D-1a. It should be clear that ratepayers are paying $4.3 million, part of which is used to pay the income tax on a deduction not recognized by the Internal Revenue Service. To reduce the cost free capital by this amount would, in effect, charge the ratepayer a rate of return on a tax which he has already paid.

Q. SCHEDULE D-1a SHOWS COST FREE CAPITAL PRIOR TO ADJUSTMENTS OF $407,236,000. BY WHAT AMOUNT HAS THAT BEEN REDUCED BY PEF FOR DEFERRED TAX DEBITS?

A. PEF has reduced the cost free capital by $166,654,000 for accumulated deferred income tax debits in Account 190.

Q. DOES ALL OF THAT BALANCE PERTAIN TO DEFERRED INCOME TAX DEBITS RELATED TO THE DECOMMISSIONING TRUST FUND?

A. No. The Company's filing does not show the details of the balances in Account 190 – Accumulated Deferred Income Tax Debit. The FERC Form 1 for December 31, 2004 does have the detail of what is in the December balance. Of the $167,278,404, the balance at December 31, 2004, page 234 of the FERC Form 1, shows that $37,910,000 is related to nuclear decommissioning funds. This balance increased $7,447,000 between December 31, 2003 and December 31, 2004. The balance would increase by similar amounts for the years 2005 and 2006. I have added $7,447,000 for the year 2005, since that full amount would be reflected in the 13-month average for 2006. I have added one-half of $7,447,000 for the 13-month average ending December 31, 2006. The estimated balance for deferred income tax debits related to nuclear decommissioning is estimated to be $52,804,000.

The stipulation between the OPC and PEF in Docket No. 000824-EI, dated March 27, 2002, suspended the contribution to the decommissioning fund. The increase in the deferred income tax debit balance in Account 190 appears to be related to earnings on the trust fund balance. These earnings, when not tax exempt, are normally added to the trust fund net of tax. Therefore, the ratepayer is, in affect, paying the tax on the earnings and should not have the balance of cost free capital reduced by these increases in the deferred income tax debt in Account 190.

Q. WHAT ADJUSTMENT SHOULD BE MADE TO CORRECT THE COST FREE CAPITAL SHOWN IN THE CAPITAL STRUCTURE?

A. Any deferred income tax debit balance or asset that has been treated as a reduction to the cost free capital should be removed, so as to reverse that effect, when such deferred income tax debits have been funded by ratepayers or is not related to regulated service. I am recommending that an increase of at least $52,804,800 be added to the capital structure for cost free capital.

Q. ARE THERE OTHER BALANCES IN THE ACCUMULATED DEFERRED INCOME TAX DEBIT BALANCE ACCOUNT WHICH APPEAR TO BE SUSPECT AS A REDUCTION OF COST FREE CAPITAL?

A. Yes. The Company is recording a deferred income tax debit for unbilled revenue. At December 31, 2004 this balance was $34,726,000. It is my understanding that the Company records unbilled revenue for ratemaking, book and tax purposes. I do not understand how there would be a difference between the amount of unbilled revenue recorded for ratemaking and book purposes and not recorded for income tax purposes which would give rise to additional income for tax purposes resulting in the deferred income tax debit. However, I have not made an adjustment for this amount in my recommendations. I do believe, however, that the Company should be required to demonstrate that any reduction to cost free capital by the balance in the accumulated deferred income tax debit, Account 190, results from income tax expense paid by the Company on a revenue or expense item recorded for ratemaking purposes, but treated differently for tax purposes. Only those taxes which have not been collected from the ratepayer should be a legitimate reduction of cost free capital.

<u>IV. RATE BASE</u>

Q. ARE YOU PROPOSING ADJUSTMENTS TO THE COMPANY'S PROJECTED TEST YEAR RATE BASE FOR THE TEST YEAR ENDING DECEMBER 31, 2006?

A. Yes, I am.

Q. ON WHAT SCHEDULES ARE YOUR PROPOSED RATE BASE ADJUSTMENTS SHOWN?

A. I have made adjustments to the Company's rate base on separate schedules labeled Exhibit No. ___ (HL-2), Schedules B-1 and B-2. I am also recommending other reductions to rate base as discussed in this testimony.

Q. WOULD YOU PLEASE DISCUSS EACH OF THE ADJUSTMENTS YOU ARE PROPOSING AND WHY EACH IS APPROPRIATE?

A. Yes.

<u>Plant in Service</u>

Q. WHAT ADJUSTMENTS ARE YOU PROPOSING TO THE COMPANY'S PLANT IN SERVICE?

A. The rate base requested by the Company utilizes a projected test year ending December 31, 2006. That means the Company must project each balance by month of each component of the rate base, i.e., plant in service, accumulated depreciation, plant held for future use and working capital. It is unlikely that anyone could project balances almost two years into the future without inaccuracies affecting the balances. The best method of testing the Company's projection methodologies is to compare actual results to projections and draw a conclusion regarding whether the balance will be overstated or understated based on comparisons of actual to projected amounts.

Q. HAVE YOU PERFORMED SUCH AN ANALYSIS?

A. Yes. I have been able to compare the Company's projections of plant in service balances for the first five months of the 13-month average for the year ending December 31, 2005, which is the year prior to the projected test year.

Q. HAVE YOU PREPARED A SCHEDULE THAT SHOWS THE RESULTS OF YOUR COMPARISON?

A. Yes, I have. On Schedule B-1, I have compared the PEF projected plant in service balance to the actual plant in service balance as shown on PEF's Surveillance Reports filed with the Florida Public Service Commission (FPSC).

Q. WOULD YOU DISCUSS THOSE COMPARISONS AND YOUR PROPOSED ADJUSTMENT TO PLANT IN SERVICE?

A. On Schedule B-1 I have compared the actual balances of electric plant in service to the Company's projections on Schedule B-3, page 5 of 12, for the prior year ended December 31, 2005. This comparison of actual balances, as reported to the Commission in surveillance reports, to the Company's projected balances will indicate whether there is a trend in the Company's projection methodology. In other words, if all of the projections exceed the actuals in months in which the Company only had to project expenditures and retirements for five months into the future, then it is likely that same trend of over projecting plant balances would continue into the future and would affect the test year 13-month average ending December 31, 2006.

Looking at the results shown on Schedule B-1, each month, December 2004 through April 2005, show that the Company's projected plant in service balance exceeded the actual in every month. Actual data is available at this time only through April 2005.

Q. DIDN'T THE COMPANY HAVE THE ACTUAL DECEMBER 2004 BALANCE WHEN IT MADE THE PROJECTION FOR THE PRIOR YEAR ENDED DECEMBER 31, 2005?

A. Yes, it did. In fact, PEF used the actual balance for the month of December 2004 for the historical test year ended December 31, 2004. However, when making the projection for the year 2005, PEF did not use the actual balance for December 2004; rather, PEF used a budgeted balance which exceeded the actual by $40,765,000.

Q. WHAT RELEVANCE DOES THE YEAR 2005 HAVE TO THE PROJECTED TEST YEAR 2006?

A. The Company utilized the same projection methodology for both the prior year ended December 31, 2005 and the test year ended December 31, 2006. The 13-month average for the plant in service balance for the test year ended December 31, 2006 starts out with the same balance for December resulting from the projections for the prior year ended December 31, 2005. Any inaccuracies in 2005 are carried forward into the 2006 test year because the December 31, 2005 balance becomes the first month in the 13-month future test year average, and the same projection methodology is used.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING?

A. I have calculated the difference between the actual plant in service balance and the projected plant in service balance for each of the actual months available. I have also calculated the percentage difference by which the projected balance exceeded the actual balance. I then took the average percentage overstatement of the balance of plant in service to projected and applied it to the 13-month average plant in service balance projected by the Company on Schedule B-1 for the 13-months average ending December 31, 2006. This results in an adjustment to plant in service for the projected test year 2006 of $139,698,000 on a total Company basis. The jurisdictional adjustment is $129,459,000. This amount is reflected as a reduction of rate base by OPC witness DeRonne.

Q. DID YOU DO A SIMILAR STUDY RELATED TO THE ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION?

A. Yes, I did.

Q. WHAT WERE THE RESULTS OF THAT STUDY?

A. I found the average balance for the first five months of 2005 to be reasonably stated.

Construction Work In Progress

Q. SHOULD THE COMMISSION ALLOW ANY CONSTRUCTION WORK IN PROGRESS (CWIP) IN RATE BASE?

A. No, it should not. Construction Work In Progress, as the title designates, is plant that is not completed and providing service to ratepayers. It is neither used nor useful in generating, transmitting, or delivering current service to ratepayers. The ratemaking process is predicated on an examination of the operations of a utility to insure that the assets upon which ratepayers are required to provide the utility with a rate of return are, in fact, reasonably priced and are both used and useful in providing services on a current basis to ratepayers. Facilities in the process of being constructed cannot be used or useful. Their total cost and the basis on which they were constructed cannot be examined in the context of providing service to ratepayers. The ratemaking process therefore excludes, in most instances, all CWIP from earning a current rate of return or being included in rate base until such time as projects are completed and providing services to ratepayers.

For a public service commission to allow CWIP in rate base is to predetermine that costs are reasonable and that the project will be used and useful in providing service to ratepayers. As a general ratemaking principle, CWIP should be excluded from rate base and excluded from the ratemaking process until such time that it is actually providing service to ratepayers.

Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION INCLUDED CWIP IN RATE BASE IN SOME INSTANCES?

A. Yes, it has. However, in those instances of which I am aware, the particular utility was in the midst of a large construction program, and there was a likelihood that the interest coverage ratio would decline below the coverage ratios required by bond indenture covenants.

Q. WAS FLORIDA PROGRESS (FLORIDA POWER CORP.) ALLOWED CWIP IN RATE BASE IN THEIR LAST FULL RATECASE DOCKET NO. 91089-EI, ORDER NO. PSC-92-1197-FOS-EI, DATED OCTOBER 22, 1992?

A. Yes.

Q. IN THAT DOCKET DID THE COMMISSION AUTHORIZE CWIP IN RATE BASE BASED ON THE NECESSITY OF MAINTAINING THE COMPANY'S FINANCIAL INTEGRITY?

A. There is no discussion in the order related to the reasoning behind allowing CWIP in rate base. It does not appear that any of the parties challenged the inclusion of CWIP in rate base based on the Commission's normal standard of only including CWIP in rate base when it is necessary to maintain the company's financial integrity.

Q. SHOULD THE COMMISSION APPLY IN THIS CASE ITS PAST STANDARD OF INCLUDING CWIP IN RATE BASE ONLY WHEN THE UTILITY DEMONSTRATES THE MEASURE IS REQUIRED TO MAINTAIN FINANCIAL INTEGRITY?

A. Yes, it should. As I have previously pointed out, CWIP is not used and useful and is not currently providing service to ratepayers.

Q. HAS PEF DEMONSTRATED THE BASIS FOR INCLUDING CWIP IN RATE BASE IN THIS CASE?

A. No, it has not.

Q. WHY, IN THE ABSENCE OF SUCH A SHOWING, SHOULD THE COMMISSION DENY PEF'S PROPOSAL TO INCLUDE CWIP IN RATE BASE?

A. When a utility undertakes a new construction project, the process of approving that project should include an analysis of the costs and benefits to be derived from the completion of the construction project. Projects are normally only approved by utility management when the present value of future revenues or savings exceeds the present value of the cost of completing the construction project. When a utility commission includes CWIP in rate base, it is allowing a return on that project prior to its placement in service and its generation of the benefit which was contemplated when the project was initially approved. The inclusion of a current return on that project, therefore, bestows on the company's stockholders a double benefit. That double benefit consists of the future benefit anticipated as a result of the approval of the project and the current benefit which allows a current return on that project.

Q. WHAT IS YOUR UNDERSTANDING OF WHY THE FLORIDA PUBLIC SERVICE COMMISSION HAS ALLOWED CWIP IN RATE BASE IN PRIOR CASES?

A. The justification used by the Public Service Commission was that because a particular utility was in the midst of a large construction program, that its financial integrity, i.e., its interest coverage ratio, would be compromised because of a large portion of earnings being generated by the Allowance for Funds Used During Construction (AFUDC), or no earnings being allowed on smaller projects where no AFUDC was being accrued.

The Florida Public Service Commission set out its policy regarding inclusion of CWIP in rate base and FPL's last litigated rate case, Docket No. 83046-EI. The Florida Public Service Commission stated the following:

> "As announced repeatedly in our more recent electric rate cases, our decision to include CWIP in rate base has been founded on our overriding concern of providing the particular utility with an opportunity to achieve and maintain adequate financial integrity. In this case, we have determined that even without the inclusion of any CWIP in rate base, FPL should be able to maintain its financial integrity in 1984 and 1985. Accordingly, we find that it is not necessary to include any CWIP or Nuclear Fuel in Process (NFIP)

in rate base in either 1984 or 1985 in order to maintain FPL's financial integrity."[1]

The April 30, 2005 surveillance report indicates that the times interest earned ratio for PEF is 6.49 (including AFUDC) and 6.37 (excluding AFUDC) for that 12-month period.

PEF had additions to plant in service in 2003 of $760 million and maintained an interest coverage ratio of 4.74 times without AFUDC and generated 41.24% of the fund internally. It should also be pointed out that the plant additions completed in 2004 were approximately $381 million and PEF, according to the earnings surveillance report, was able to generate 75.02% of the construction funds internally. The times interest earned ratio was 6.89 with AFUDC and 6.80 without AFUDC. Plant additions for 2005 are projected to be approximately $654 million while the 2006 projected plant additions projected at $324 million. It does not appear that PEF's coverage ratios, which have ranged from 5.35 to 5.45 range in 2002 and 2003 and 6.89 for the 12-month ended April 30, 2005 would be detrimentally affected to the point where CWIP would need to be included in rates in order to maintain a coverage ratio above the requirements of bond covenants.

Q. DOES THE COMMISSION RULE 25-6.0141 ON THE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION DETERMINE WHETHER PROJECTS ARE INCLUDED IN RATE BASE OR NOT?

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[1] Docket No. 830465-EI, p. 14. Decision Nos. 13537 and 13948.

A. No, it does not. The rule determines that long-term projects of a certain magnitude will accrue AFUDC and that shorter term projects will not. In my opinion, the rule recognizes the fact that projects which are completed over a shorter period of time, i.e., less than one year, will provide the Company a return by either increasing sales or decreasing operating costs and, therefore, do not require an AFUDC return. Other more long-term projects may require the accrual of AFUDC because of the length it takes to complete these projects. However, that does not dictate that these projects should be considered for inclusion in rate base. Obviously, if a company constructs a new facility as PEF is or has done, there is an economic need for this capacity. If that is the case, then the return should be provided through the project as it is added, which will either increase sales or reduce costs. For these reasons, I have excluded CWIP from rate base.

Plant Held for Future Use

Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO PLANT HELD FOR FUTURE USE (PHFFU)?

A. Yes, I am.

Q. WHAT ARE THOSE ADJUSTMENTS AND WHAT IS THE BASIS FOR THOSE ADJUSTMENTS?

A. The Company has projected the same balance as the prior year for PHFFU for each of the months of the 13-month average prior year ending December 31, 2005. It has projected the same balance in plant held for future use for each of the months of the 13-month test year ended December 31, 2006. That balance is $7,921,000 on a total Company basis. This is the same balance which appeared in the Company's Form 1, page 214, for the years 2003 and 2004. The Company's Form 1 indicates that the majority of these costs representing land and land rights were to be placed in service in May 2005. The balance to be placed in service at May 2005 is $6,459,553. If the Company's FERC Form 1 is correct, there will only be a balance in plant held for future use after May 2005 of $1,461,721. The Company has projected the in service date of this property to be May 2005 in each of the years 2003 and 2004. It is only appropriate that this balance be adjusted to comport with the Company's projections which would be made with the same accuracy as the Company's projections of other test year budgets and projections. The adjustment I am recommending is a removal of $6,459,000 from PHFFU on a total Company basis and $4,437,000 on a jurisdictional basis.

V. WORKING CAPITAL

Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO THE COMPANY'S WORKING CAPITAL CALCULATION?

A. Yes, I am proposing several adjustments to the Company's working capital allowance. These adjustments are shown on Schedule B-2.

Over Recoveries

Q. COMPANY WITNESS JAVIER PORTUONDO HAS MADE SEVERAL ADJUSTMENTS TO THE WORKING CAPITAL CALCULATIONS CONTAINED IN THIS TESTIMONY. WOULD YOU PLEASE DISCUSS THOSE ADJUSTMENTS WHICH YOU THINK ARE INAPPROPRIATE?

A. Yes. In the Company's rate base calculation of working capital, Mr. Portuondo has removed an over recovery of Energy Conservation Cost Recovery from the working capital calculation. This is in violation of prior Commission orders and policy. In PEF's (FPC) last rate order, Docket No. 910890-EI, Order No. PSC-92-1197-FOF-EI, dated October 22, 1992, the Commission specifically rejected the position that Mr. Portuondo is advocating.

Q. DID MR. PORTUONDO POINT OUT THAT THIS ADJUSTMENT WAS NOT IN COMPLIANCE WITH PAST COMMISSION ORDERS?

A. No, he did not.

Q. PLEASE DISCUSS WHAT THE COMMISSION ORDERED REGARDING OVER AND UNDER RECOVERIES OF VARIOUS COST RECOVERY CLAUSES.

A. The Commission has always recognized that an under recovery of costs, which appears on the company's books as a receivable, should be removed from working capital because to include it in working capital would allow the company a double rate of return. The first rate of return would be recovered through the base rates since the increase in working capital for the under recovery would receive a rate of return. The second rate of return would be recovered by the Company because a rate of return is added to the under recovery and recovered through the adjustment clause. Thus, in order to insure that a double recovery is not provided on under recoveries of adjustment clauses, the Commission excludes those from working capital calculations. On the other hand, the Commission includes in working capital any over recoveries related to any of the recovery clauses. This is so, because to exclude them would require ratepayers to pay a rate of return on the over recovery. If the over recovery is excluded from working capital, working capital is then increased and the company's return increases by the amount of the dollar over recovery excluded from working capital. In effect, ratepayers would be paying a rate of return to themselves rather than having the company pay a rate of return when it returns the over recovery to ratepayers through the recovery clause.

In Docket No. 910890-EI, related to PEF (FPC), the Commission stated the following:

> "It has long been our policy to include net fuel and conservation over recoveries in working capital. This reduces working capital and consequently rate base. However, FPC excluded from working capital the net over recoveries of fuel and conservation expense in its 1992 test year and the net under recoveries in the 1993 test year.
>
> FPC receives interest on under recoveries and pays interest on over recoveries through the Fuel and Conservation Clause Adjustments. This acts as an incentive for the Company to make its projections as accurately as possible. If over recoveries were excluded from working capital, rate base would be increased and ratepayers would have to provide the interest to pay themselves."

As can be seen, this has been the policy of the Florida Public Service Commission for years. Mr. Portuondo's adjustment is in conflict with that policy of the Commission. I recommend that working capital be decreased by $8,144,000 on a total Company basis and the same amount on a jurisdictional basis since the Energy Conservation Clause recovery revenue is all retail and there is no wholesale jurisdiction involved.

<u>Remove Job Orders</u>

Q. THE COMPANY HAS PROPOSED AN ADJUSTMENT TO WORKING CAPITAL TO REMOVE JOB ORDERS. DO YOU AGREE THAT JOB ORDERS SHOULD BE REMOVED FROM WORKING CAPITAL?

A. Yes. However, the Company's adjustment does not appear to go in the right direction. The explanation for this adjustment on MFR Schedule B-2, page 2 of 6, Adjustment (8), is "To remove recoverable job orders." This would mean that if they are recoverable from someone else, then they are an asset and are a debit balance in working capital. To remove them, therefore, would require a reduction in working capital since it should be an asset.

Q. DOES THE COMPANY'S WORKING CAPITAL CALCULATION ON MFR SCHEDULE B-17, PAGE 2 OF 3, SHOW FROM WHICH ACCOUNT THE COMPANY IS REMOVING THIS AMOUNT?

A. No. However, it is included as part of the adjustment being made to "current and accrued assets and deferred debits." It appears to me that this should be a reduction of working capital instead of an increase in working capital. That is, the

Company's adjustment increases working capital by $26,567,000 on a total Company basis, rather than decreasing it by that amount.

Q. HAVE YOU EXAMINED THE COMPANY'S BALANCE SHEET TO SEE WHETHER THERE ARE ANY CREDIT AMOUNTS RELATED TO JOB ORDERS?

A. Yes, I have. I examined the April 2005 balance sheet account detail for Progress Energy Florida. The only balances with job order descriptions are in Account 186. None of these balances are credit balances which relate to recoverable job orders. I am, therefore, recommending that unless the Company can show how removing work orders recoverable from a third party can result in an increase in working capital, this adjustment must be reversed in order to properly reflect the removal of recoverable job orders from working capital.

Q. WHAT ADJUSTMENT ARE RECOMMENDING?

A. Since the Company's adjustment increases working capital by $26,567,000 when in reality it should reduce working capital by that amount, the Company's adjustment must be doubled in order to actually remove recoverable job orders from working capital. Therefore, the adjustment should be a removal of $53,134,000 on a total Company basis and $43,267,000 on a jurisdictional basis.

<u>Other Investments</u>

Q. WHY HAVE YOU REMOVED OTHER INVESTMENTS FROM WORKING CAPITAL REQUIREMENTS?

A. As the account title indicates, other investments are not utility investments and should receive a rate of return from some other source. They, therefore, should not be included in regulated services which require a rate of return.

<u>Cash Balance</u>

Q. WHAT IS THE REASON FOR REMOVING THE CASH BALANCE FROM WORKING CAPITAL REQUIREMENTS?

A. The Company's working capital requirement contains a significant dollar amount of cash on hand, i.e., total Company of $11,357,000. All holding companies that I am aware of have a cash management program that requires that collections of cash are immediately transferred to the parent company where they are invested in short-term day-to-day money market assets in order to earn a rate of return. Each day the Company receives notice from the bank as to what checks or payment vouchers have been received by the bank and an equal dollar amount is transferred from the cash management fund to the bank to cover these vouchers or payments. Unless PEF can justify what benefit ratepayers receive from the maintaining of $11.3 million in funds on a total Company basis, such a large cash balance should not be allowed in working capital. If PEF cannot demonstrate that the savings to ratepayers is greater than the overall rate of return required to maintain these funds, then this balance should be excluded from working capital.

Accounts Receivable Associated Companies

Q. WHY SHOULD THE ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES BE REMOVED FROM THE WORKING CAPITAL REQUIREMENT?

A. Associated companies are not customers of the retail operations of PEF. It is unlikely that the receivables due from these associated companies is reflected in the jurisdictional accounts of Progress Energy Florida. These are most likely wholesale transactions, or transactions between the regulated entity and non-regulated companies owned by Progress, the parent company. Ratepayers in Florida should not be required to pay a rate of return on receivables due from these companies. Unless Progress Energy Florida can demonstrate that any, or all, of the $11.9 million of receivables from associated companies are related to providing retail services, they should be excluded from the ratemaking process.

Allocation of Unbilled Revenue

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO THE ALLOCATION OF UNBILLED REVENUE?

A. PEF has allocated 90.84% of total unbilled revenue to the jurisdictional retail customers on MFR Schedule B-17, page 1 of 3. An analysis of the first five months of the year 2005 indicates that only 78.95% of the unbilled revenue pertained to retail customers. See the Company's Financial Statements for the months of January 2005 through April 2005. This allocation is based on the actual results reflected in the Company's balance sheets and is not based on projections. Additionally, this allocation should be higher because the City of

Winter Park has become a wholesale customer of PEF as of June 1, 2005. The city purchased its distribution system from PEF, which is discussed in more detail in the testimony of OPC witness Donna DeRonne.

Derivative Assets

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING REGARDING DERIVATIVE ASSETS?

A. I recommend the Commission remove from working capital the derivative assets that PEF included in its filing.

It appears that the assets included by PEF in working capital are the result of market to market derivative instruments. These assets do not appear to be actual cash expenditures resulting from cash transactions. Unless the Company can show that there is an outflow of dollars related to the derivatives, they should not be included in working capital requirements. The adjustment I am recommending is a reduction of working capital by $23,471,000 on a total Company basis and a reduction of $21,321,000 on a jurisdictional basis.

Employee's Receivables and Merchandise Inventory

Q. HAS THE COMPANY INCLUDED EMPLOYEES' RECEIVABLES IN WORKING CAPITAL?

A. Yes, it has. The Company has included "other accounts receivable" Account 143. This includes receivables due from employees for heat pump loans and employee appliance purchase loans. Ratepayers should not subsidize the Company's appliance sales. This amount should be removed from working capital. I have removed the average of employee receivables for the first four months of 2005. This amounts to approximately $840,000 on a total Company basis. The jurisdictional adjustment would be $763,000. In addition, merchandise inventory should be removed from Accounts 153-163. The amount of merchandise for the first four months of 2005 on average was $262,000. The jurisdictional amount would be $242,000.

<u>Prepayments Non-Utility Advertising</u>

Q. PLEASE EXPLAIN THE ADJUSTMENT TO WORKING CAPITAL FOR PREPAYMENTS NON-UTILITY ADVERTISING.

A. In response to Staff Interrogatory No. 112, the Company shows a breakdown of the prepaid balance included in working capital. The major component of this prepaid balance is a payment to the Devil Rays for directory advertising and promotional fees. The Company has labeled this account in its response to the Staff as "prepayments non-utility advertising." This is not appropriate to be included within the working capital requirement because it is both promotional for the Company and is non-utility in nature. It is not clear where these expenses are charged when the prepayment is being written off. If it is written off in utility accounts included in the ratemaking process, the same level of expense should be removed from the operating income statement.

Two Spare Turbines

Q. PLEASE EXPLAIN THE ADJUSTMENT TO REDUCE THE MATERIAL AND SUPPLIES ACCOUNT FOR TWO SPARE TURBINES.

A. The Company has projected that the material and supplies account will increase by $65.2 million between December 2003 and December of 2006. Part of the Company's explanation for this increase contained in its response to OPC's Interrogatory No. 82 is as follows:

> "...and two spare turbines expected to be used in the construction of the Hines 4 combined cycle at a value of $46.8 million."

The Company's purchase of two turbines to be used in the construction of Hines Unit 4 should have been charged to a Construction Work In Progress work order which accrues AFUDC. Ratepayers should not be required to pay a rate of return for equipment purchased for new construction. The appropriate accounting for this item, as I described above, is to open a construction work order for the construction of Hines Unit 4 and charge the spare turbines to that work order and accrue AFUDC on this item until they are installed in the Hines Unit 4. It is not appropriate to charge materials and supplies and earn a current rate of return on equipment that is not necessary for the operation of units currently in service.

Q. ARE THERE OTHER ADJUSTMENTS TO WORKING CAPITAL BEING SPONSORED BY OTHER WITNESSES FROM LARKIN & ASSOCIATES, PLLC SHOWN ON SCHEDULE B-2?

A. Yes, L&A witnesses' Schultz and DeRonne are each sponsoring an adjustment to working capital shown on lines 13 and 14 of Schedule B-2.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX I

QUALIFICATIONS OF HUGH LARKIN, JR.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and a partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated from Michigan State University in 1960. During 1961 and 1962, I fulfilled my military obligations as an officer in the United States Army.

In 1963 I was employed by the certified public accounting firm of Peat, Marwick, Mitchell & Co., as a junior accountant. I became a certified public accountant in 1966.

In 1968 I was promoted to the supervisory level at Peat, Marwick, Mitchell & Co. As such, my duties included the direction and review of audits of various types of business organizations, including manufacturing, service, sales and regulated companies.

Through my education and auditing experience of manufacturing operations, I obtained an extensive background of theoretical and practical cost accounting.

I have audited companies having job cost systems and those having process cost systems, utilizing both historical and standard costs.

I have a working knowledge of cost control, budgets and reports, the accumulation of overheads and the application of same to products on the various recognized methods.

Additionally, I designed and installed a job cost system for an automotive parts manufacturer.

I gained experience in the audit of regulated companies as the supervisor in charge of all railroad audits for the Detroit office of Peat, Marwick, including audits of the Detroit, Toledo and Ironton Railroad, the Ann Arbor Railroad, and portions of the Penn Central Railroad Company. In 1967, I was the supervisory senior accountant in charge of the audit of the Michigan State Highway Department, for which Peat, Marwick was employed by the State Auditor General and the Attorney General.

In October of 1969, I left Peat, Marwick to become a partner in the public accounting firm of Tischler & Lipson of Detroit. In April of 1970, I left the latter firm to form the certified public accounting firm of Larkin, Chapski & Company. In September 1982 I re-organized the firm into Larkin & Associates, a certified public accounting firm. The firm of Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. I am a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. I testified before the Michigan Public Service Commission and in other states in the following cases:

U-3749	Consumers Power Company - Electric Michigan Public Service Commission
U-391	Detroit Edison Company Michigan Public Service Commission
U-4331	Consumers Power Company - Gas Michigan Public Service Commission
U-4332	Consumers Power Company - Electric Michigan Public Service Commission
U-4293	Michigan Bell Telephone Company Michigan Public Service Commission
U-4498	Michigan Consolidated Gas sale to Consumers Power Company Michigan Public Service Commission
U-4576	Consumers Power Company - Electric Michigan Public Service Commission
U-4575	Michigan Bell Telephone Company Michigan Public Service Commission
U-4331R	Consumers Power Company - Gas - Rehearing Michigan Public Service Commission
6813	Chesapeake and Potomac Telephone Company of Maryland, Public Service Commission, State of Maryland

Formal Case No. 2090	New England Telephone and Telegraph Co. State of Maine Public Utilities Commission
Dockets 574, 575, 576	Sierra Pacific Power Company, Public Service Commission, State of Nevada
U-5131	Michigan Power Company Michigan Public Service Commission
U-5125	Michigan Bell Telephone Company Michigan Public Service Commission
R-4840 & U-4621	Consumers Power Company Michigan Public Service Commission
U-4835	Hickory Telephone Company Michigan Public Service Commission
36626	Sierra Pacific Power Company v. Public Service Commission, et al, First Judicial District Court of the State of Nevada
American Arbitration Assoc.	City of Wyoming v. General Electric Cable TV
760842-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
U-5331	Consumers Power Company Michigan Public Service Commission
U-5125R	Michigan Bell Telephone Company Michigan Public Service Commission
770491-TP	Winter Park Telephone Company, Florida Public Service Commission
77-554-EL-AIR	Ohio Edison Co., Public Utility Commission of Ohio
78-284-EL-AEM	Dayton Power and Light Co., Public Utility Commission of Ohio

0R78-1	Trans Alaska Pipeline, Federal Energy Regulatory Commission (FERC)
78-622-EL-FAC	Ohio Edison Co., Public Utility Commission of Ohio
U-5732	Consumers Power Company - Gas, Michigan Public Service Commission
77-1249-EL-AIR, et al	Ohio Edison Co., Public Utility Commission of Ohio
78-677-EL-AIR	Cleveland Electric Illuminating Co., Public Utility Commission of Ohio
U-5979	Consumers Power Company, Michigan Public Service Commission
790084-TP	General Telephone Company of Florida, Florida Public Service Commission
79-11-EL-AIR	Cincinnati Gas and Electric Co., Public Utilities Commission of Ohio
790316-WS	Jacksonville Suburban Utilities Corp., Florida Public Service Commission
790317-WS	Southern Utility Company, Florida Public Service Commission
U-1345	Arizona Public Service Company, Arizona Corporation Commission
79-537-EL-AIR	Cleveland Electric Illuminating Co., Public Utilities Commission of Ohio
800011-EU	Tampa Electric Company, Florida Public Service Commission
800001-EU	Gulf Power Company, Florida Public Service Commission

U-5979-R	Consumers Power Company, Michigan Public Service Commission
800119-EU	Florida Power Corporation, Florida Public Service Commission
810035-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
800367-WS	General Development Utilities, Inc., Port Malabar, Florida Public Service Commission
TR-81-208**	Southwestern Bell Telephone Company, Missouri Public Service Commission
810095-TP	General Telephone Company of Florida, Florida Public Service Commission
U-6794	Michigan Consolidated Gas Company, 16 refunds Michigan Public Service Commission
U-6798	Cogeneration and Small Power Production - PURPA, Michigan Public Service Commission
0136-EU	Gulf Power Company, Florida Public Service Commission
E-002/GR-81-342	Northern State Power Company Minnesota Public Utilities Commission
820001-EU	General Investigation of Fuel Cost Recovery Clauses, Florida Public Service Commission
810210-TP	Florida Telephone Corporation, Florida Public Service Commission
810211-TP	United Telephone Co. of Florida, Florida Public Service Commission
810251-TP	Quincy Telephone Company, Florida Public Service Commission

810252-TP	Orange City Telephone Company, Florida Public Service Commission
8400	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-6949	Detroit Edison Company - Partial and Immediate Rate Increase Michigan Public Service Commission
18328	Alabama Gas Corporation, Alabama Public Service Commission
U-6949	Detroit Edison Company - Final Rate Recommendation Michigan Public Service Commission
820007-EU	Tampa Electric Company, Florida Public Service Commission
820097-EU	Florida Power & Light Company, Florida Public Service Commission
820150-EU	Gulf Power Company, Florida Public Service Commission
18416	Alabama Power Company, Public Service Commission of Alabama
820100-EU	Florida Power Corporation, Florida Public Service Commission
U-7236	Detroit Edison-Burlington Northern Refund Michigan Public Service Commission
U-6633-R	Detroit Edison - MRCS Program, Michigan Public Service Commission
U-6797-R	Consumers Power Company - MRCS Program, Michigan Public Service Commission
82-267-EFC	Dayton Power & Light Company, Public Utility Commission of Ohio

U-5510-R	Consumers Power Company - Energy Conservation Finance Program, Michigan Public Service Commission
82-240-E	South Carolina Electric & Gas Company, South Carolina Public Service Commission
8624	Kentucky Utilities, Kentucky Public Service Commission
8648	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-7065	The Detroit Edison Company (Fermi II) Michigan Public Service Commission
U-7350	Generic Working Capital Requirements, Michigan Public Service Commission
820294-TP	Southern Bell Telephone Company, Florida Public Service Commission
Order RH-1-83	Westcoast Gas Transmission Company,Ltd., Canadian National Energy Board
8738	Columbia Gas of Kentucky, Inc., Kentucky Public Service Commission
82-168-EL-EFC	Cleveland Electric Illuminating Company, Public Utility Commission of Ohio
6714	Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission
82-165-EL-EFC	Toledo Edison Company, Public Utility Commission of Ohio
830012-EU	Tampa Electric Company, Florida Public Service Commission
ER-83-206**	Arkansas Power & Light Company, Missouri Public Service Commission

U-4758	The Detroit Edison Company (Refunds), Michigan Public Service Commission
8836	Kentucky American Water Company, Kentucky Public Service Commission
8839	Western Kentucky Gas Company, Kentucky Public Service Commission
83-07-15	Connecticut Light & Power Company, Department of Utility Control State of Connecticut
81-0485-WS	Palm Coast Utility Corporation, Florida Public Service Commission
U-7650	Consumers Power Company - (Partial and Immediate), Michigan Public Service Commission
83-662**	Continental Telephone Company, Nevada Public Service Commission
U-7650	Consumers Power Company - Final Michigan Public Service Commission
U-6488-R	Detroit Edison Co. (FAC & PIPAC Reconciliation), Michigan Public Service Commission
Docket No. 15684	Louisiana Power & Light Company, Public Service Commission of the State of Louisiana
U-7650 Reopened	Consumers Power Company (Reopened Hearings) Michigan Public Service Commission
38-1039**	CP National Telephone Corporation Nevada Public Service Commission

83-1226	Sierra Pacific Power Company (Re application to form holding company) Nevada Public Service Commission
U-7395 & U-7397	Campaign Ballot Proposals Michigan Public Service Commission
820013-WS	Seacoast Utilities Florida Public Service Commission
U-7660	Detroit Edison Company Michigan Public Service Commission
U-7802	Michigan Gas Utilities Company Michigan Public Service Commission
830465-EI	Florida Power & Light Company Florida Public Service Commission
U-7777	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7779	Consumers Power Company Michigan Public Service Commission
U-7480-R	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7488-R	Consumers Power Company - Gas Michigan Public Service Commission
U-7484-R	Michigan Gas Utilities Company Michigan Public Service Commission
U-7550-R	Detroit Edison Company Michigan Public Service Commission
U-7477-R	Indiana & Michigan Electric Company Michigan Public Service Commission
U-7512-R	Consumers Power Company - Electric Michigan Public Service Commission
18978	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission

9003	Columbia Gas of Kentucky, Inc. Kentucky Public Service Commission
R-842583	Duquesne Light Company Pennsylvania Public Utility Commission
9006*	Big Rivers Electric Corporation Kentucky Public Service Commission *Company withdrew filing
U-7830	Consumers Power Company - Electric (Partial and Immediate) Michigan Public Service Commission
7675	Consumers Power Company - Customer Refunds Michigan Public Service Commission
5779	Houston Lighting & Power Company Texas Public Utility Commission
U-7830	Consumers Power Company - Electric - "Financial Stabilization" Michigan Public Service Commission
U-4620	Mississippi Power & Light Company (Interim) Mississippi Public Service Commission
U-16091	Louisiana Power & Light Company Louisiana Public Service Commission
9163	Big Rivers Electric Corporation Kentucky Public Service Commission
U-7830	Consumers Power Company - Electric - (Final) Michigan Public Service Commission
U-4620	Mississippi Power & Light Company - (Final) Mississippi Public Service Commission
76-18788AA & 76-18788AA	Detroit Edison (Refund - Appeal of U-4807) Ingham County Circuit Court Michigan Public Service Commission

U-6633-R	Detroit Edison (MRCS Program Reconciliation) Michigan Public Service Commission
19297	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9283	Kentucky American Water Company Kentucky Public Service Commission
850050-EI	Tampa Electric Company Florida Public Service Commission
R-850021	Duquesne Light Company Pennsylvania Public Service Commission
TR-85-179**	United Telephone Company of Missouri Missouri Public Service Commission
6350	El Paso Electric Company The Public Utility Board of the City of El Paso
6350	El Paso Electric Company Public Utility Commission of Texas
85-53476AA & 85-534855AA	Detroit Edison-refund-Appeal of U-4758 Ingham County Circuit Court Michigan Public Service Commission
U-8091/ U-8239	Consumers Power Company-Gas Michigan Public Service Commission
9230	Leslie County Telephone Company, Inc. Kentucky Public Service Commission
85-212	Central Maine Power Company Maine Public Service Commission
850782-EI & 850783-EI	Florida Power & Light Company Florida Public Service Commission

ER-85646001 & ER-85647001	New England Power Company Federal Energy Regulatory Commission
Civil Action * No. 2:85-0652	Allegheny & Western Energy Corporation, Plaintiff, - against – The Columbia Gas System, Inc. Defendent
Docket No. 850031-WS	Orange Osceola Utilities, Inc. Before the Florida Public Service Commission
Docket No. 840419-SU	Florida Cities Water Company South Ft. Myers Sewer Operations Before the Florida Public Service Commission
R-860378	Duquesne Light Company Pennsylvania Public Service Commission
R-850267	Pennsylvania Power Company Pennsylvania Public Service Commission
R-860378	Duquesne Light Company - Surrebuttal Testimony - OCA Statement No. 2D Pennsylvania Public Service Commission
Docket No. 850151	Marco Island Utility Company Before the Florida Public Service Commission
Docket No. 7195 (Interim)	Gulf States Utilities Company Public Utility Commission of Texas
R-850267 Reopened	Pennsylvania Power Company Pennsylvania Public Service Commission
Docket No. 87-01-03	Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control
Docket No. 5740	Hawaiian Electric Company Hawaii Public Utilities Commission
1345-85-367	Arizona Public Service Company Arizona Corporation Commission

Docket 011	Tax Reform Act of 1986 - California No. 86-11-019 California Public Utilities Commission
Case No. 29484	Long Island Lighting Company New York Department of Public Service
Docket No. 7460	El Paso Electric Company Public Utility Commission of Texas
Docket No. 870092-WS*	Citrus Springs Utilities Before the Florida Public Service Commission
Case No. 9892	Dickerson Lumber EP Company - Complainant vs. Farmers Rural Electric Cooperative and East Kentucky Power Cooperative - Defendants Before the Kentucky Public Service Commission
Docket No. 3673-U Commission	Georgia Power Company Before the Georgia Public Service
Docket No. U-8747	Anchorage Water and Wastewater Utility Report on Management Audit
Docket No. 861564-WS Commission	Century Utilities Before the Florida Public Service
Docket No. FA86-19-001	Systems Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 870347-TI	AT&T Communications of the Southern States, Inc. Florida Public Service Commission
Docket No. 870980-WS	St. Augustine Shores Utilities Inc. Florida Public Service Commission
Docket No. 870654-WS*	North Naples Utilities, Inc. Florida Public Service Commission

Docket No. 870853	Pennsylvania Gas & Water Company Pennsylvania Public Utility Commission
Civil Action* No. 87-0446-R	Reynolds Metals Company, Plaintiff, v. The Columbia Gas System, Inc., Commonwealth Gas Services, Inc., Commonwealth Gas Pipeline Corporation, Columbia Gas Transmission Corporation, Columbia Gulf Transmission Company, Defendants - In the United States District Court for the Eastern District of Virginia - Richmond Division
Docket No. E-2, Sub 537	Carolina Power & Light Company North Carolina Utilities Commission
Case No. U-7830	Consumers Power Company - Step 2 Reopened Michigan Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone & Telegraph Florida Public Service Commission
Case No. U-7830	Consumers Power Company - Step 3B Michigan Public Service Commission
Docket No. 880355-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. 880360-EI	Gulf Power Company Florida Public Service Commission
Docket No. FA86-19-002	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company Illinois Commerce Commission
Docket Nos. 83-0537 Remand & 84-0555 Remand	Commonwealth Edison Company Surrebuttal Illinois Commerce Commission

Docket No. 880537-SU	Key Haven Utility Corporation Florida Public Service Commission
Docket No. 881167-EI***	Gulf Power Company Florida Public Service Commission
Docket No. 881503-WS	Poinciana Utilities, Inc. Florida Public Service Commission
Cause No. U-89-2688-T	Puget Sound Power & Light Company Washington Utilities & Transportation Committee
Docket No. 89-68	Central Maine Power Company Maine Public Utilities Commission
Docket No. 861190-PU	Proposal to Amend Rule 25-14.003, F.A.C. Florida Public Service Commission
Docket No. 89-08-11 Utility Control	The United Illuminating Company State of Connecticut, Department of Public
Docket No. R-891364	The Philadelphia Electric Company Pennsylvania Public Utility Commission
Formal Case No. 889	Potomac Electric Power Company Public Service Company of the District of Columbia
Case No. 88/546*	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (In the Supreme Court County of Onondaga, State of New York)
Case No. 87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf + Western, Inc. et al, defendants (In the Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
Case No. 89-640-G-42T*	Mountaineer Gas Company West Virginia Public Service Commission

Docket No. 890319-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. EM-89110888	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 891345-EI	Gulf Power Company Florida Public Service Commission
BPU Docket No. ER 8811 0912J	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 6531	Hawaiian Electric Company Hawaii Public Utilities Commissioners
Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone Company Florida Public Service Commission
Docket Nos. F-3848, F-3849, and F-3850	Northwestern Bell Telephone Company South Dakota Public Utilities Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 90-10	Artesian Water Company, Inc. Delaware Public Service Commission
Case No. 90-243-E-42T*	Wheeling Power Company West Virginia Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc. Florida Public Service Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. (Surrebuttal) Federal Energy Regulatory Commission
Application No. 90-12-018	Southern California Edison Company California Public Utilities Commission

Docket No. 90-0127	Central Illinois Lighting Company Illinois Commerce Commission
Docket No. FA-89-28-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. U-1551-90-322	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No. R-911966	Pennsylvania Gas & Water Company The Pennsylvania Public Utility Commission
Docket No. 176-717-U	United Cities Gas Company Kansas Corporation Commission
Docket No. 860001-EI-G	Florida Power Corporation Florida Public Service Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
(No Docket No.)	Southern Union Gas Company Before the Public Utility Regulation Board of the City of El Paso
Docket No. 6998	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. TC91-040A	In the Matter of the Investigation into the Adoption of a Uniform Access Methodology Before the Public Utilities Commission of the State of South Dakota
Docket Nos. 911030-WS & 911067-WS	General Development Utilities, Inc. Before the Florida Public Service Commission
Docket No. 910890-EI	Florida Power Corporation Before the Florida Public Service Commission

Docket No. 910890-EI	Florida Power Corporation, Supplemental Before the Florida Public Service Commission
Case No. 3L-74159	Idaho Power Company, an Idaho corporation In the District Court of the Fourth Judicial District of the State of Idaho, In and For the County of Ada - Magistrate Division
Cause No. 39353*	Indiana Gas Company Before the Indiana Utility Regulatory Commission
Docket No. 90-0169 (Remand)	Commonwealth Edison Company Before the Illinois Commerce Commission
Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Cause No. 39498	PSI Energy, Inc. - Surrebuttal testimony Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 7287	Public Utilities Commission - Instituting a Proceeding to Examine the Gross-up of CIAC Before the Public Utilities Commission of the State of Hawaii
Docket No. 92-227-TC	US West Communications, Inc. Before the State Corporation Commission of the State of New Mexico
Docket No. 92-47	Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. Before the Florida Public Service Commission

Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket Nos.EC92-21-000 & ER92-806-000	Entergy Corporation Before the Federal Energy Regulatory Commission
Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation, Supplemental State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company Before the Utah Public Service Commission
Cause No. 39353 (Phase II)	Indiana Gas Company Before the Indiana Utility Regulatory Commission
PU-314-92-1060	US West Communications, Inc. Before the North Dakota Public Service Commission
Cause No. 39713	Indianapolis Water Company Before the Indiana Utility Regulatory Commission
93-UA-0301*	Mississippi Power & Light Company Before the Mississippi Public Service Commission

Docket No. 93-08-06	SNET America, Inc. State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company - Rehearing on Unbilled Revenues - Before the Utah Public Service Commission
Case No. 78-T119-0013-94	Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute. Before the American Arbitration Association
Application No. 93-12-025 - Phase I	Southern California Edison Company (Before the California Public Utilities Commission)
Case No. 94-0027-E-42T West Virginia)	Potomac Edison Company (Before the Public Service Commission of
Case No. 94-0035-E-42T West Virginia)	Monongahela Power Company (Before the Public Service Commission of
Docket No. 930204-WS**	Jacksonville Suburban Utilities Corporation (Before the Florida Public Service Commission)
Docket No. 5258-U	Southern Bell Telephone and Telegraph Company (Before the Georgia Public Service Commission)
Case No. 95-0011-G-42T*	Mountaineer Gas Company (Before the West Virginia Public Service Commission)
Case No. 95-0003-G-42T*	Hope Gas, Inc. (Before the West Virginia Public Service Commission)

Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 95-057-02*	Mountain Fuel Supply Before the Utah Public Service Commission
Docket No. 95-03-01	Southern New England Telephone Company State of Connecticut, Department of Public Utility Control
BRC Docket No. EX93060255 OAL Docket PUC96734-94	Generic Proceeding Regarding Recovery of Capacity Costs Associated with Electric Utility Power Purchases from Cogenerators and Small Power Producers Before the New Jersey Board of Public Utilities
Docket No. U-1933-95-317	Tucson Electric Power Before the Arizona Corporation Commission
Docket No. 950495-WS	Southern States Utilities Before the Florida Public Service Commission
Docket No. 960409-EI	Prudence Review to Determine Regulatory Treatment of Tampa Electric Company's Polk Unit 1
Docket No. 960451-WS	United Water Florida Before the Florida Public Service Commission
Docket No. 94-10-05	Southern New England Telephone Company State of Connecticut Department of Public Utility Control
Docket No. 96-UA-389	Generic Docket to Consider Competition in the Provision of Retail Electric Service Before the Public Service Commission of the State of Mississippi

Docket No. 970171-EU	Determination of appropriate cost allocation and regulatory treatment of total revenues associated with wholesale sales to Florida Municipal Power Agency and City of Lakeland by Tampa Electric Company Before the Florida Public Service Commission
Case No. PUE960296 *	Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission
Docket No. 97-035-01	PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. G-03493A-98-0705*	Black Mountain Gas Division of Northern States Power Company, Page Operations Before the Arizona Corporation Commission
Docket No. 98-10-07	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 98-10-07	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket NO. 99-02-05	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 99-03-36	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 99-03-35	United Illuminating Company State of Connecticut Department of Public Utility Control

Docket No. 99-03-04	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 99-08-02	Yankee Energy System, Inc. State of Connecticut Department of Public Utility Control
Docket No. 99-08-09	CTG Resources, Inc. State of Connecticut Department of Public Utility Control
Docket No. 99-07-20	Connecticut Energy Corporation / Energy East State of Connecticut Department of Public Utility Control
Docket No. 99-09-03 Phase II	Connecticut Natural Gas State of Connecticut Department of Public Utility Control
Docket No. 99-09-03 Phase III	Connecticut Natural Gas State of Connecticut Department of Public Utility Control
Docket No. 99-04-18 Phase II	Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control
Docket No. 99-057-20*	Questar Gas Company Public Service Commission of Utah
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. T-1051B-99-105	U.S. West Communications, Inc. Arizona Corporation Commission
Docket No. 01-035-10*	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utha
Docket No. 991437-WU	Wedgefield Utilities, Inc. Before the Florida Public Service Commission

Docket No. 991643-SU	Seven Springs Before the Florida Public Service Commission
Docket No. 98P55045	General Telephone and Electronics of California California Public Utilities Commission
Docket No. 00-01-11	Consolidated Edison, Inc. and Northeast Utilities Merger State of Connecticut Before the Department of Public Utility Control
Docket No. 00-12-01	Connecticut Light & Power Company State of Connecticut Before the Department of Public Utility Control
Docket No. 000737-WS	Aloha Utilities/Seven Springs Utilities Before the Florida Public Service Commission
Consolidated Docket Nos. EL00-66-000 ER00-2854-000 EL95-33-000	Entergy Services, Inc. Before the Federal Energy Regulatory Commission
Docket No. 950379-EI	Tampa Electric Company Before the Florida Public Service Commission
Docket No. 010503-WU	Aloha Utilities, Inc. – Seven Springs Water Division Before the Florida Public Service Commission
Docket No. 01-07-06*	The Towns of Durham and Middlefield State of Connecticut Before the Department of Public Utility Control
Docket No. 99-09-12-RE-02	Connecticut Light & Power/Millstone State of Connecticut Before the Department of Public Utility

	Control
Civil Action No. C2-99-1181	The United States et al v. Ohio Edison et al U.S. District Court, S.D. Ohio
Docket No. 001148-ET****	Florida Power & Light Company Before the Florida Public Service Commission
Civil Action No. 99-833-Per	The United States et al v. Illinois Power Company U.S. District Court, S.D. Illinois
Civil Action No. IP99-1692-C-M/s	The United States et al v. Southern Indiana Gas and Electric Company U.S. District Court, S.D. Indiana
Docket No. 02-057-02*	Questar Gas Company Public Service Commission of Utah
Docket No. EL01-88-000	Entergy Services, Inc. et. al. Mississippi Public Service Commission
Docket No. 9355-U	Georgia Power Company Before the Georgia Public Service Commission
Case No. 1016	Washington Gas Light Company Before the Public Service Commission of the District of Columbia
Civil Action Nos. C2 99-1182 C2 99-1250 (Consolidated)	The United States et al v. American Electric Power Company, ET, AL
Docket No. 030438-EI *	Florida Public Utilities Company Before the Florida Public Service Commission
Docket No. EL01-88-000	Entergy Services, Inc., et al Before the Federal Energy Regulatory Commission
Civil Action No. 1:00 CV1262	The United States et al v. Duke Energy Company

Docket No. 050045-EI

Florida Power & Light Corporation
Before the Florida Public Service Commission

*Case Settled
**Issues Stipulated
***Testimony Withdrawn
****Case Settled, Testimony Not Filed

Progress Energy Florida, Inc.
Projected Test Year Ended December 31, 2006

Adjustments to Plant In Service
(Thousands of Dollars)

Docket No. 050078-EI
Hugh Larkin, Jr. Exhibit No. ______
(HL-2)
Schedule B-1

Line No.	Month and Year	PEF Projected Plant In Service Balance (1)	Actual Plant In Service Balance (2)	Amount of Difference Over Actual	Percentage Difference Over Actual
1	December 2004	$8,428,167	$8,387,402	$40,765	0.486%
2	January 2005	8,525,360	8,386,783	138,577	1.652%
3	February 2005	8,548,047	8,455,191	92,856	1.098%
4	March 2005	8,571,548	8,390,891	180,657	2.153%
5	April 2005	8,594,852	8,408,042	186,810	2.222%
6	Total				7.611%
7	Average Percentage Over Stated				1.522%
8	13-Month Average Projected Plant In Service (PIS) (MFR's Schedule B-3, page 1 of 12, lines 2, 5 and 6, 12/31/06)				$ 9,178,564
9	Adjustment to PIS (Line 7 x Line 8)				$ 139,698
10	Jurisdictional Percentage (MFR's Schedule B-1 12/31/06)				0.92671
11	Jurisdictional Adjustment to PIS (Line 10 x Line 9)				$129,459

(1) Schedule B-3, page 5 of 12, lines 2, 5 and 6 for 2005.
(2) Surveillance Report Schedule 3, page 1 of 3.

Progress Energy Florida, Inc.
Working Capital
Test Year Ended December 31, 2006
(000)

Docket No. 050078-EI
Hugh Larkin, Jr. Exhibit No. ___ (HL-2)
Adjusted Working Capital
Schedule B-2

Line No.	Description	Reference	Total Company Adjusted Working Capital	Jurisdictional Adjusted Working Capital
1	PEF Working Capital	MFR B-1, page 1 of 3	$222,087 (1)	$183,593
2	OPC Reduce Working Capital for Over Recoveries	Hugh Larkin Testimony	(8,144)	(8,144)
3	OPC Remove Job Orders	Hugh Larkin Testimony	(53,134)	(48,267)
4	OPC Remove Other Investments	Hugh Larkin Testimony	(550)	(500)
5	OPC Remove Cash Balance	Hugh Larkin Testimony	(11,357)	(10,317)
6	OPC Remove Accounts Receivable - Associates Cost	Hugh Larkin Testimony	(11,924)	(10,832)
7	OPC Charge Allocation of Unbilled Revenue	Hugh Larkin Testimony	0	(8,151)
8	OPC Adjustment to Remove Derivatives	Hugh Larkin Testimony	(23,471)	(21,321)
9	OPC Remove Employee Receivable	Hugh Larkin Testimony	(839)	(763)
10	OPC Remove Merchandise Inventory	Hugh Larkin Testimony	(262)	(242)
11	OPC Revenue Prepayments Non-Utility	Hugh Larkin Testimony	(2,301)	(2,133)
12	OPC Remove Two Spare Tubines	Hugh Larkin Testimony	(46,800)	(43,262)
13	OPC Adjustment to Remove Rate Case Expense	Donna DeRonne Testimony	(2,250)	(2,250)
14	OPC Adjustment to Storm Damage	Helmuth W. Schutlz Testimony	18,976	18,976
17	Total Adjustments		($142,056)	(137,206)
18	Adjusted Working Capital		$80,031	46,387

(1) Total Company Schedule B-1, line 16, Column (H) less Company adjustments Column (H), line 36.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Hugh Larkin, Jr. has been furnished by electronic mail and U.S. Mail on this 13th day of July, 2005, to the following:

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