BEFORE THE
PUBLIC UTILITY COMMISSION OF FLORIDA

In RE: Petition for rate increase by Progress Energy Florida, Inc.	Docket No. 050078-EI

Direct Testimony and Exhibits of

Michael Gorman
Volume 2 of 2

On behalf of

White Springs Agricultural Chemicals, Inc.
d/b/a PCS Phosphate – White Springs

July 13, 2005

BAI
BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

Project 8383

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Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of White Springs Agricultural Chemicals, Inc. d/b/a PCS Phosphate – White Springs (White Springs). White Springs is a manufacturer of fertilizer products with plants and operations located within Progress Energy Florida Inc.'s (PEF) service territory at White Springs, and receives service under numerous rate schedules. During calendar year 2004, White Springs purchased approximately $20 million of power from PEF.

Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A This is the second volume of my testimony. In Volume 1 I address proposed capital structure and return on equity adjustments. In this Volume 2 I describe my proposed adjustments for surplus depreciation, T&D net salvage depreciation expense, rejection of PEF's proposed fossil station dismantlement expense and a refund of nuclear decommissioning reserves to customers. I propose several adjustments to PEF's claimed revenue deficiency. As shown below in Table 1, my adjustments to PEF's claimed revenue requirement reduce its revenue deficiency from $206 million, to a reduction of $56.8 million.

TABLE 1

Revenue Requirement Summary
(Millions)

	Retail Amount
PEF's Claimed Revenue Deficiency	$205.6
Adjustments:	
Capital Structure	45.6
Reduce ROE to 9.8%	113.9
Depreciation Surplus Amortization	33.6
T&D Expense Net Salvage Adj.	42.0
Reject Fossil Station Dismantlement Expense	9.6
Return Excess Nuclear Decommissioning Reserve	17.7
Total Adjustments	$262.4
Adjusted Revenue Deficiency (Surplus)	$ (56.8)

My proposed capital structure and return on equity adjustments are described in my Volume 1 testimony. Below I describe my proposed adjustments for surplus depreciation, T&D net salvage depreciation expense, rejection of PEF's proposed fossil station dismantlement expense and a refund of excess nuclear decommissioning reserves. In total, I recommend reductions to the Company's proposed retail depreciation expense in the amount of $85.2 million. This depreciation expense reduction was reflected in the retail financial ratio calculations in my Volume 1 testimony.

Q ARE THESE THE ONLY ADJUSTMENTS THAT SHOULD BE MADE TO PEF'S REQUEST?

A No. Adjustments proposed by other parties must also be considered.

PEF's Depreciation Reserve Surplus

Q PLEASE SUMMARIZE YOUR PROPOSED ADJUSTMENTS FOR PEF'S DEPRECIATION RESERVE SURPLUS.

A I recommend a reduction to PEF's proposed annual depreciation expense of $38 million to achieve an accelerated payback of surplus depreciation reserves. Specifically, I propose to flow back approximately $250 million of the surplus depreciation reserves over a five-year period. This would be an acceleration to the Company's implicit proposal to flow back this accelerated depreciation reserve over the remaining life of PEF's assets, or approximately 21.3 years. My proposed $38 million adjustment is based on a $50 million amortization of surplus reserves ($44 million retail), offset by an adjustment to the Company's proposed new depreciation rates. The retail portion of the $38 million total electric depreciation expense adjustment will reduce jurisdictional retail electric depreciation expense by approximately $33.4 million.

Q DOES PEF HAVE A DEPRECIATION RESERVE SURPLUS?

A Yes. PEF indicates that the actual book accumulated depreciation reserve has a surplus of approximately $754 million, or 21% in excess of the reserve level estimated to be appropriate by PEF. Even factoring in the allocation of the retail

reserve debit of $250 million created by PEF's last rate settlement, the remaining accumulated depreciation reserve surplus is approximately $504 million.

Q WHAT CAUSES THE DEPRECIATION RESERVE SURPLUS?

A The depreciation reserve surplus is the difference between the actual book depreciation reserve and the theoretical book depreciation reserve. The theoretical book depreciation reserve reflects the size of the book depreciation reserve if the proposed depreciation parameters (average service lives, survivor curves, remaining lives, and net salvage ratios) had been in place over the entire asset lives. The depreciation reserve surplus indicates that PEF has charged depreciation expense that is higher than necessary and has, in effect, recovered its investment in utility assets from customers too quickly.

Q IS PEF PROPOSING AN AMORTIZATION OF THE SURPLUS RESERVE BALANCE?

A No. PEF has utilized its actual book depreciation reserves to calculate its depreciation rates. In essence, PEF is returning its accumulated depreciation reserve to its customers over 21 years – the average remaining life of its utility assets.

Q DO YOU RECOMMEND THAT PEF'S CALCULATED RESERVE SURPLUS BE AMORTIZED OVER A SPECIFIC PERIOD?

A Yes. Because the reserve surplus is so significant, I am conservatively recommending that approximately one-half of the remaining excess reserve, or

$250 million, be amortized over a five-year period. This is a conservative recommendation because it would be reasonable to recommend amortizing all of the remaining reserve surplus on an accelerated basis. This reduces depreciation expense by $50 million. The portion of the reserve that is not amortized should be utilized to develop the book depreciation rates, and be passed back to customers over the remaining asset lives of 21 years.

Q HAVE YOU ESTIMATED THE IMPACT OF AMORTIZING $250 MILLION OVER FIVE YEARS?

A Yes. Amortizing $250 million over five years would reduce PEF's depreciation expense by $50 million. However, this expense reduction would be, in part, offset by an increase in the investment to be recovered in depreciation rates and would increase the depreciation rates proposed by PEF by $11.7 million.

As a result, as shown on my Exhibit MPG-17 the net effect of this adjustment would be an approximate $38.3 million reduction to PEF's proposed depreciation expense, of which $33.6 million is retail. This assumes all of PEF's other depreciation recommendations are accepted.

Q HAVE YOU PERFORMED A SPECIFIC CALCULATION TO DETERMINE THE IMPACT OF YOUR ADJUSTMENT ON PEF'S DEPRECIATION EXPENSE?

A No. I have not performed a specific calculation that deals with all of PEF's plant accounts, but I have attempted to estimate what this impact would be. It is my understanding that other parties in this case will be addressing certain

depreciation issues; therefore, depending on the Commission's final ruling, it may be necessary for PEF to recalculate the rates in a compliance filing.

T&D Net Salvage

Q ARE YOU ADDRESSING ANY OTHER DEPRECIATION ISSUES?

A Yes. I am addressing the level of net salvage that PEF has included in depreciation rates for its transmission and distribution plant accounts. I recommend PEF's proposed depreciation rates be reduced to lower its annual depreciation rates by $43.0 million total electric, and $41.8 million retail electric, in order to eliminate T&D net salvage expense included in PEF's proposed new depreciation rates. As set forth below, I believe this is appropriate because the Company's proposal will substantially overcollect T&D net salvage costs from current customers and undercollect net salvage costs from future customers. While this benefits future generations of customers, it is detrimental to current customers. This intergenerational shift is not just and reasonable and should be rejected.

Q PLEASE DEFINE WHAT IS MEANT BY NET SALVAGE.

A Net salvage is simply the value received from the sale or reuse of retired property (salvage value), less the cost of retiring such property (cost of removal). Net salvage can be either positive or negative. If the salvage value exceeds the cost of removal, the net salvage is positive. If the cost of removal is greater than the salvage value received as a result of retirement, the net salvage is negative. PEF calculated for each T&D account a gross salvage rate and a cost of removal

rate. These two rates are added to the plant depreciation rate to produce the total book depreciation rate.

Q WHY DO YOU TAKE EXCEPTION TO PEF'S PROPOSED NET SALVAGE COST REFLECTED IN ITS PROPOSED DEPRECIATION RATES?

A The annual net salvage component of depreciation expense that PEF is requesting is significantly greater than its actual net salvage expense experience. As a result, the depreciation rates and resulting depreciation expense are overstated and, thus, not just or reasonable.

The consequences of PEF's proposed net salvage costs are that it unnecessarily raises rates for today's customers and will lower rates to future customers. This intergenerational subsidization is unreasonable. This shift in cost burden occurs because the net salvage that PEF has included in its proposed depreciation rates includes an estimate of future inflation.

Q DO YOU BELIEVE PEF'S CURRENT NET SALVAGE RATIOS PRODUCE DEPRECIATION RATES AND EXPENSE THAT ARE EXCESSIVE?

A Yes. This is based on a comparison of the net salvage expense included in PEF's proposed T&D depreciation expense with the level of net salvage expense PEF actually experiences. PEF's proposed depreciation expense contains an annual net salvage component of $43 million. PEF determined net salvage by applying its gross salvage rates and the cost of removal to the 12/31/2005 plant balances. However, PEF's average actual annual T&D net salvage expense

over the last five years is a negative $600,000. This means that over the last five years cost of removal has barely exceeded the gross salvage value.

Q PLEASE EXPLAIN HOW YOU DETERMINED THE DEPRECIATION EXPENSE THAT IS ASSOCIATED WITH NET SALVAGE.

A To calculate the net salvage, I applied PEF's proposed net salvage rates, which are composed of the gross salvage and cost of removal rates, to the 12/31/2005 plant balance. The result of the analysis is summarized on my Exhibit MPG-18

Q HOW DOES PEF'S HISTORICAL ACTUAL NET SALVAGE COMPARE TO THE LEVEL OF NET SALVAGE THAT PEF IS PROPOSING TO INCLUDE IN ITS DEPRECIATION RATES?

A Table 2 below shows PEF's actual annual net salvage experience over the last ten years for those T&D accounts that have a proposed net salvage ratio. As Table 2 shows, over the last five years PEF's net salvage experience has averaged a negative $600,000 per year. Over the past ten years, the average annual net salvage expense has been a negative $590,000 per year. (The amounts shown in Table 2 were developed from the data provided in PEF's filing.) A negative net salvage expense means that the cost of removal has exceeded the gross salvage value.

TABLE 2

PEF's Net Salvage by Account

Account No.	Net Salvage 5-Year	Net Salvage 10-Year
Transmission Plant		
352.00	$ (790)	$ (4,874)
353.10	315,403	799,340
354.00	(660)	213
355.00	314,871	83,065
356.00	173,042	113,576
358.00	-	(156)
Total Transmission	$ 801,867	$ 991,162
Distribution Plant		
361.00	$ 1,497	$ (510)
362.00	230,359	415,040
364.00	(525,984)	(809,308)
365.00	80,103	154,314
366.00	(121,430)	(64,720)
367.00	(452,495)	(517,771)
368.00	(109,404)	(285,175)
369.10	(29,970)	(392,548)
369.20	(41,915)	110,865
370.00	(170,301)	(70,206)
373.00	(271,103)	(121,404)
Total Distribution	$ (1,401,643)	$ (1,581,423)
Total Transmission and Distribution	$ (599,776)	$ (590,261)

As previously stated, PEF's proposed depreciation rates include $43 million per year of net salvage expense. Clearly, charging current customers for $43 million a year of net salvage costs, when the Company is expending less than $1 million a year, creates an unreasonable and excessive burden on current customers.

Q WHAT CAUSES THE DISPARITY BETWEEN NET SALVAGE EXPENSE INCLUDED IN DEPRECIATION RATES AND ACTUAL NET SALVAGE EXPERIENCE?

A Proposed net salvage percentages that are included in the development of depreciation rates reflect estimates of future inflation and also may not capture economies of scale that would occur if large retirement activity occurred during a single year.

Q YOU INDICATED THAT THE DISPARITY BETWEEN THE NET SALVAGE EXPENSE INCLUDED IN DEPRECIATION RATES AND PEF'S ACTUAL NET SALVAGE EXPERIENCE IS PRODUCED BY THE FACT THAT THE NET SALVAGE COMPONENT INCLUDED IN THE DEPRECIATION RATES INCLUDES THE IMPACT OF FUTURE INFLATION. PLEASE ELABORATE.

A To develop the net salvage component of the depreciation rates, PEF analyzes the net salvage cost it experiences when retiring plant investment. In addition, PEF contends that the proposed net salvage ratio reflects "future expectations." Because of the magnitude of the proposed level of net salvage expense as compared to historic levels, it can only be assumed that future escalation is included in the estimates.

Q PLEASE PROVIDE AN EXAMPLE OF THE IMPACT ON NET SALVAGE ASSOCIATED WITH INCLUDING FUTURE INFLATION IN THE DEVELOPMENT OF NET SALVAGE RATIOS.

A For Plant Account 366, PEF is proposing a net salvage ratio of a negative 25% and an average service life of 33 years. In its proposal, PEF is requesting $250 of net salvage expense for every $1,000 of investment. If we simply discount the $250 at a 3% inflation rate for 33 years, the present-day cost to remove that asset is approximately $94. Under PEF's proposal, today's customers would essentially see a 33-year amortization of the $250 in their depreciation rates. As a result, PEF would require today's customers to pick up a portion of the cost of inflation that it estimates will occur over the next 33 years.

Q DOES THE COMPANY'S PROPOSAL TO REFLECT FUTURE INFLATION IN ITS COST OF SERVICE TODAY HARM CURRENT CUSTOMERS?

A Yes. Future inflation will over time also increase Florida retail customers' disposable income. Hence, paying higher amounts of inflation adjusted net salvage cost in future periods will be less of a burden because households' disposable income will also likely increase by inflation gains, thus mitigating the burden on households' disposable income in meeting their future obligations to the utility. Also, Florida businesses are more able to afford future inflation adjusted increased costs of production with future inflation adjusted prices they receive for their own goods and services. Hence, net salvage costs should be based on current costs, not inflation adjusted costs.

Q WHAT IS THE IMPACT ON THE VARIOUS VINTAGES OF CUSTOMERS OF INCLUDING PEF'S PROPOSED NET SALVAGE RATIOS IN THE DEVELOPMENT OF THE DEPRECIATION RATES?

A With PEF's proposal, future customers benefit substantially. Accrued depreciation is an offset to rate base. As accrued depreciation builds up, the rate base becomes smaller. Smaller rate base means that the return requirement and associated income taxes become less over time. Because of this ratemaking consequence, future customers benefit substantially by including PEF's proposed net salvage ratios in the determination of depreciation rates.

As noted above, PEF is proposing an average service life of 33 years and a net salvage ratio of a negative 25% for Account 366. As a result, every year PEF would be accruing depreciation expense, on average, at a rate of 3.79% (1.25/33). After 26.5 years of service, the Account 366 investment is fully depreciated. Therefore, for the last 6.5 years, or 20% of the asset's life, the rate base is negative. After year 35, the customers who are utilizing the assets are no longer paying a return and associated taxes.

Q HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE REVENUE REQUIREMENT ASSOCIATED WITH A $1,000 INVESTMENT IN ACCOUNT 366?

A Yes. My Exhibit MPG-19 shows the development of the annual revenue requirement over an average life span of 33 years. The Exhibit assumes that the $1,000 is placed in service and is retired at the end of the year 33. The revenue requirement includes both the return of investment, which is depreciation

expense, and the return on investment, which includes a component for return and income taxes. A pre-tax rate of return of 10% was utilized for purposes of making the calculation.

As Exhibit MPG-19 shows, after year 11, over 50% of the total return "of" and "on" this investment is paid. That is, over approximately 25% of the useful life half of the revenue requirement associated with the return on and of investment is collected from customers. As a result, during the last 75% of the asset's life, future customers benefit by the inflated rates paid by current customers.

If the same analysis is performed on a present value or real dollar basis, over 50% of the revenue requirement associated with the return of and on investment is paid over approximately a six-year period.

Q WHAT DO YOU PROPOSE IN THIS PROCEEDING?

A I propose the Commission eliminate the net salvage ratios from the T&D depreciation rates. The net salvage expense that is included in PEF's ratemaking revenue requirement should be based on current net salvage experience. As shown on Table 2, the average net salvage expense over the last five years is negative $600,000 per year. Dividing this by the T&D plant produces a net salvage ratio of less than a negative 0.1%. Therefore, based on a review of PEF's historic net salvage expense, less than $1 million is warranted. However, because PEF has excess depreciation reserves, I am recommending a zero net salvage for purposes of calculating the T&D depreciation rates.

Q IS THERE SUPPORT IN ANY INDUSTRY TRADE PUBLICATION FOR EXCLUDING NET SALVAGE RATIOS FROM THE DEVELOPMENT OF DEPRECIATION RATES?

A Yes. Pages 157-158 of the Public Utility Depreciation Practices published in August 1996 by the National Association of Regulatory Utility Commissioners (NARUC) states:

> "Some commissions have abandoned the above procedure and moved to current-period accounting for gross salvage and/or cost of removal. In some jurisdictions gross salvage and cost of removal are accounted for as income and expense, respectively, when they are realized. Other jurisdictions consider only gross salvage in depreciation rates, with the cost of removal being expensed in the year incurred.
>
> Determining a reasonably accurate estimate of the average or future net salvage is not an easy task; estimates can be the subject of considerable discussions and controversy between regulators and utility personnel. This is one of the reasons advanced in support of current-period accounting for these items. When estimating future net salvage, every effort should be made to ensure that the estimate is as accurate as possible. Normally, the process should start by analyzing past salvage and cost of removal data and by using the results of this analysis to project future gross salvage and cost of removal."

This indicates that excluding net salvage from the depreciation rates is consistent with the method used by other jurisdictions and is acceptable to NARUC.

Q WHAT IS THE IMPACT ON PEF'S REVENUE REQUIREMENT AS A RESULT OF YOUR PROPOSED TREATMENT OF NET SALVAGE FOR THE PLANT ACCOUNTS?

A Removing the net salvage from the depreciation rates reduces PEF's requested depreciation expense by $43.0 million, or $42.0 million on a retail basis.

FOSSIL UNIT DISMANTLEMENT EXPENSE

Q IS PEF PROPOSING TO INCLUDE A FOSSIL GENERATING UNIT DISMANTLEMENT EXPENSE IN ITS COST OF SERVICE?

A Yes. PEF is proposing an annual fossil dismantlement accrual beginning in 2006 of $11.2 million total system, and $9.6 million retail. This is an increase to PEF's cost of service because it agreed to discontinue accruing a fossil dismantlement expense in its last rate case settlement.

Q IS PEF'S PROPOSAL FOR A DISMANTLEMENT EXPENSE ACCRUAL IN THIS PROCEEDING REASONABLE?

A No. Its dismantlement accrual is based on the estimated direct costs of dismantling and disposal of each facility, offset by the expected scrap value. The Company's study ignores the value of land and the potential replacement generation being developed on these existing fossil station sites. Hence, there is significant salvage value at these facilities that is not accurately reflected in the fossil station dismantlement accrual proposal. Accordingly, PEF's proposal for fossil station dismantlement costs is unreasonable and should be rejected.

Q SHOULD PEF HAVE REFLECTED THE EXPECTATION OF EXISTING FOSSIL STATION SITES BEING USED FOR REDEVELOPMENT OF GENERATING ASSETS OR REFLECTED THE LAND VALUE OF THOSE SITES IN ITS DISMANTLEMENT COST ESTIMATE?

A Yes. PEF based its recommendations on dismantling studies that do not recognize the value of the generating sites. A generating site should be valuable

because the sites have access to the electric transmission system. Because of this access, these sites should be valuable to PEF and/or an independent power producer for the next generation of power plants. This should provide a positive benefit that needs to be considered when a net salvage value is developed.

Finally, these sites also have infrastructure in place that should make these sites valuable. For example, the sites have access to water, railroads, and/or roads, all of which provide value to the existing generating sites. Also, the costs associated with siting and permitting a major electric generating plant at an alternative site could enhance the value of the current sites. Therefore, if these types of positive salvage considerations are included in the estimate to determine the net salvage, the dismantling studies would have to be adjusted, and the dismantlement costs would disappear.

Q BECAUSE LAND IS NOT A DEPRECIABLE ASSET, SHOULD IT BE EXCLUDED FROM THE DETERMINATION OF FOSSIL DISMANTLEMENT STUDIES?

A No. The fact that land is not depreciable has no bearing on the determination of net salvage value or net dismantling costs for fossil fuel generating plants. Customers pay a return on the land during the entire period that the generating plant was classified as plant in service. In addition, in some instances customers also paid a return on land during the time period it was included as plant held for future use. Also, the customers have paid for all of the maintenance and upkeep of the site. Improvements to the site, which include roads, railways, utilities and access to the electric transmission system, have increased the value of the site.

The customer has also paid for all of the property taxes associated with the land. Simply put, the customer has reflected in its rates all of the costs associated with the investment in the land. The notion that any potential gross salvage value associated with the site is solely land-related and should not be reflected in the determination of the net salvage value is erroneous and leads to the unreasonable cost estimates of dismantlement.

Q HOW COULD PEF RECOVER ITS FOSSIL DISMANTLEMENT COST IF IT DOES NOT ACCRUE A CHARGE?

A The cost of dismantlement should either be included as a part of the cost of redevelopment of the generating sites for future generation assets, or should be recovered through the sale of the land.

NUCLEAR DECOMMISSIONING RESERVE REFUND

Q PLEASE DESCRIBE YOUR PROPOSED ADJUSTMENT RELATED TO NUCLEAR DECOMMISSIONING EXPENSE.

A I recommend the Company refund to customers over the next five years the amount of money set aside in its non-tax qualified decommissioning trust fund, which is approximately $75 million.

Q WHY SHOULD THE COMPANY REFUND THE AMOUNT OF MONIES DEPOSITED IN ITS NON-TAX QUALIFIED DECOMMISSIONING TRUST TO CUSTOMERS?

A The Company currently has substantially overcollected from customers the amount needed to meet its nuclear decommissioning obligation. Hence, it would be reasonable to refund to customers these overcollections of decommissioning costs.

Q PLEASE DESCRIBE WHY YOU BELIEVE THE COMPANY HAS EXCESS RESERVES FOR NUCLEAR DECOMMISSIONING IN ITS DECOMMISSIONING TRUST FUND ACCOUNT.

A This is evident from the Company's own decommissioning trust fund study. Even without making annual contributions to the decommissioning trust fund accounts, the Company has funding adequate to more than cover the projected cost of decommissioning Crystal River Unit 3, including a 17.3% cost contingency factor. Indeed, based on the Company's own study, included as an exhibit to PEF witness Dale E. Young's testimony, Exhibit No. __ (DEY-4), the amount of money included in the Company's decommissioning trust fund right now will fully recover the projected cost of decommissioning, including the contingency reserve, and will maintain an excess balance after full decommissioning of approximately $3.6 billion.

On a current year basis, the Company projects that for calendar year 2005 it requires an amount in decommissioning trusts of approximately $268.8 million to fully meet its decommissioning obligation. However, the Company has approximately $370.3 million deposited in its nuclear decommissioning trust. Hence, PEF's decommissioning trusts are overfunded by more than $100 million.

Q PLEASE DESCRIBE THE COMPANY'S DECOMMISSIONING TRUSTS.

A The Company has two decommissioning trusts, a tax qualified trust, and a non-tax qualified trust. As the names imply, the difference between the two trusts relates to the income tax payable on the earnings from the trust fund assets. At end of calendar year 2004, the Company had $74.9 million in its non-tax qualified trust, and $285.7 million in its tax qualified trust.

Q WHY DO YOU RECOMMEND REFUNDING EXCESS DECOMMISSIONING RESERVES?

A Refunding the Company's excess decommissioning reserves is appropriate for several reasons. First, the Company simply has excess funding for this expected cost of service. It is economically inefficient for the Company to retain these customer provided funds that exceed the explicit cost of decommissioning.

Second, refunding these decommissioning funds will ensure that current generations of customers that made the excess contributions to the decommissioning trust receive a credit for the excess funding in those trusts. Hence, delaying the refund of excess decommissioning contributions will benefit future generations of customers, rather than the generation of customers that actually made the decommissioning contributions.

Q IF PEF DOES REFUND EXCESS DECOMMISSIONING RESERVES, WILL IT HAVE ADEQUATE ASSURANCE THAT DECOMMISSIONING FUNDING WILL BE AVAILABLE TO FULLY AND SAFELY DECOMMISSION CR3?

A Yes. Based on the Company's current cost projections, the amount of money included in its tax qualified decommissioning trust will fully fund decommissioning of CR3. Further, to the extent the cost of decommissioning changes, or investment returns on the trust are not as expected, PEF can charge future generations of customers for making additional contributions to the tax qualified decommissioning trust. This would be appropriate because it would transfer part of the cost of decommissioning to future generations of customers. Future generations of customers would not be burdened by making contributions to CR3's decommissioning, because they will be receiving benefits of CR3's low production costs as long as CR3 remains in service. Hence, this would create an appropriate allocation of CR3 costs among generations of customers. This is efficient and fair cost sharing.

Q WHAT IS THE IMPACT ON PEF'S CURRENT COST OF SERVICE FROM REFUNDING NON-TAX QUALIFIED DECOMMISSION TRUST FUND BALANCES?

A As of end of year 2004, PEF had $74.9 million in its non-tax qualified decommissioning trust. I recommend this balance be refunded to customers over a five-year period. Further, in order to ensure that the money is available, I would recommend the Commission direct PEF to liquidate this decommissioning trust and use the net proceeds to reduce the carrying cost of rate base. Hence, the impact on revenue requirements will be twofold: (a) the after tax amount of the non-tax qualified decommissioning fund amortization would reduce expenses,

and (b) carrying charges on PEF's rate base would be reduced over the amortization period.

Q PLEASE DESCRIBE YOUR ASSUMPTION IN ESTIMATING THE IMPACT ON PEF'S COST OF SERVICE FROM REFUNDING THE NON-TAX QUALIFIED DECOMMISSIONING TRUST FUND ASSETS.

A I estimate the reduction in cost of service to be $17.65 million per year. This is developed on my Exhibit MPG-20. I develop this cost of service estimated adjustment as follows.

First, I assumed that if PEF liquidates its non-tax qualified decommissioning trust, it would incur a consolidated tax expense from this liquidation of 20%. (This liquidation tax expense and the credit to PEF's cost of service should be updated to reflect PEF's actual tax cost.) This tax payment would reduce the $74.9 million trust balance to a net cash proceed to PEF of $59.9 million.

I recommend that PEF then amortize the $59.9 million net cash proceeds back to customers over a five-year period and PEF be allowed to retain the unamortized balance as a rate base reduction. This amortization would reduce PEF's cost of service by $11.98 million and reduce its net operating income and income taxes.

PEF's net operating income and income tax expense would be reduced by reflecting the unamortized balance as a rate base reduction. The rate base reduction related to the unamortized balance of this cash is based on the average unamortized test year balance of $53.9 million, and the Company's rate

of return reflecting income tax expense. Using my proposed capital structure and a 9.8% return on equity results in a pre-tax rate of return of 10.51% and would reduce net operating income and income tax expense by $5.67 million per year.

Hence, the total reduction to PEF's cost of service would be the annual amortization credit of $11.98 million, and the reduction to its net operating income and income tax expense of $5.67 million, for a total revenue requirement reduction of $17.65 million.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes.

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PROGRESS ENERGY FLORIDA, INC.

Excess Depreciation Reserve Adjustments
December 31, 2005

Account No.	Theoretical Depreciation Reserve 12/31/2005 (1)	Book Depreciation Reserve 12/31/2005 (2)	Reserve Variance Book Over/ (Under) Theoretical (3)	ARL (4)	Reserve Variance x ARL (5)	Juris-Dictional Factor (6)	Jurisdictional Reserve Variance Book Over/ (Under) Theoretical (7)
Steam Production Plant							
311.00	$ 177,146,174	$ 179,996,027	$ 2,849,853	13.5	$ 38,473,016	0.90737	$ 2,585,871
312.00	504,756,468	625,581,686	120,825,218	13.0	1,570,727,834	0.90737	109,633,178
312.90	1,985,641	2,756,883	771,242	13.4	10,334,643	0.90737	699,802
314.00	249,645,562	357,649,686	108,004,124	12.9	1,393,253,200	0.90737	97,999,702
315.00	91,479,858	117,957,429	26,477,571	13.2	349,503,937	0.90737	24,024,954
316.00	12,593,963	20,851,595	8,257,632	12.0	99,091,584	0.90737	7,492,728
Total	1,037,607,666	1,304,793,306	267,185,640		3,461,384,213		242,436,234
Nuclear Production Plant							
321.00	94,750,585	144,244,631	49,494,046	28.1	1,390,782,693	0.94386	46,715,450
321.10	904,353	1,071,579	167,226	28.1	4,699,051	0.94386	157,838
322.00	101,060,644	187,169,282	86,108,638	26.2	2,256,046,316	0.94386	81,274,499
322.10	385,895	450,070	64,175	26.2	1,681,385	0.94386	60,572
323.00	60,226,558	69,760,237	9,533,679	15.6	148,725,392	0.94386	8,998,458
323.10	536,163	510,359	(25,804)	15.6	(402,542)	0.94386	(24,355)
324.00	64,583,055	138,274,791	73,691,736	27.5	2,026,522,740	0.94386	69,554,682
324.10	113,768	182,382	68,614	27.5	1,886,885	0.94386	64,762
325.00	18,342,963	25,446,138	7,103,175	7.5	53,273,813	0.94386	6,704,403
325.10	106,567	127,306	20,739	7.5	155,543	0.94386	19,575
Total	341,010,551	567,236,775	226,226,224		5,883,371,274		213,525,884
Other Production Plant							
341.00	32,516,650	53,239,725	20,723,075	20.3	420,678,423	0.91357	18,931,980
342.00	25,600,611	28,137,611	2,537,000	15.1	38,308,700	0.91357	2,317,727
343.00	187,236,427	265,891,286	78,654,859	18.6	1,462,980,377	0.91357	71,856,720
344.00	70,724,085	80,765,052	10,040,967	23.2	232,950,434	0.91357	9,173,126
345.00	35,491,913	47,804,385	12,312,472	22.3	274,568,126	0.91357	11,248,305
346.00	3,602,863	3,866,002	263,139	19.8	5,210,152	0.91357	240,396
Total	355,172,549	479,704,061	124,531,512		2,434,696,212		113,768,253
Transmission Plant							
350.10	$ 11,552,413	$ 15,851,314	$ 4,298,901	56.5	$ 242,887,907	0.71429	$ 3,070,662
352.00	6,998,437	7,561,919	563,482	42.5	23,947,985	0.71429	402,490
353.10	98,130,129	128,661,540	30,531,411	39.7	1,212,097,017	0.74797	22,836,579
353.20	17,287,656	35,331,078	18,043,422	8.1	146,151,718	0.74797	13,495,938
354.00	47,664,263	58,452,271	10,788,008	26.0	280,488,208	0.71429	7,705,766
355.00	82,695,705	130,362,063	47,666,358	30.8	1,468,123,826	0.71429	34,047,603
356.00	88,885,598	132,303,490	43,417,892	33.1	1,437,132,225	0.71429	31,012,966
357.00	4,286,319	5,447,546	1,161,227	22.2	25,779,239	0.71429	829,453
358.00	6,047,680	8,054,950	2,007,270	21.0	42,152,670	0.71429	1,433,773
359.00	560,725	1,135,083	574,358	63.8	36,644,040	0.71429	410,258
Total	364,108,925	523,161,254	159,052,329		4,915,404,836		115,245,488

PROGRESS ENERGY FLORIDA, INC.

Excess Depreciation Reserve Adjustments
December 31, 2005

Account No.	Theoretical Depreciation Reserve 12/31/2005 (1)	Book Depreciation Reserve 12/31/2005 (2)	Reserve Variance Book Over/ (Under) Theoretical (3)	ARL (4)	Reserve Variance x ARL (5)	Juris-Dictional Factor (6)	Jurisdictional Reserve Variance Book Over/ (Under) Theoretical (7)
Distribution Plant							
360.10	152,260	211,665	59,405	54.5	3,237,573	0.99602	59,169
361.00	5,996,295	6,675,237	678,942	40.9	27,768,728	0.99602	676,240
362.00	110,344,682	111,460,684	1,116,002	33.3	37,162,867	0.99600	1,111,538
364.00	341,942,105	216,609,429	(125,332,676)	17.4	(2,180,788,562)	0.99770	(125,044,411)
365.00	191,460,982	259,046,245	67,585,263	22.7	1,534,185,470	0.99694	67,378,452
366.00	30,295,203	34,427,609	4,132,406	45.3	187,197,992	0.99753	4,122,199
367.00	144,446,568	125,458,460	(18,988,108)	24.5	(465,208,646)	0.99809	(18,951,841)
368.00	189,677,145	225,869,117	36,191,972	15.3	553,737,172	1.00000	36,191,972
369.10	63,980,072	55,001,301	(8,978,771)	19.3	(173,290,280)	1.00000	(8,978,771)
369.20	107,960,227	86,272,068	(21,688,159)	29.3	(635,463,059)	1.00000	(21,688,159)
370.00	63,486,873	55,698,545	(7,788,328)	14.0	(109,036,592)	0.98877	(7,700,865)
370.10	-	45,112	45,112			0.98877	44,605
371.00	1,086,181	1,202,781	116,600	16.0	1,865,600	0.98905	115,323
373.00	116,310,464	163,712,849	47,402,385	10.8	511,945,758	0.99951	47,379,158
Total	1,367,139,057	1,341,691,102	(25,447,955)		(706,685,981)		(25,285,391)
General Plant							
389.00	-	-					
390.00	$ 18,762,073	$ 21,264,252	$ 2,502,179	22.5	$ 56,299,028	0.92437	$ 2,312,939
391.00	-	31,529,265					
392.10	-	719,401					
392.20	-	7,186,008					
392.30	-	6,661,392					
392.40	-	28,836,601					
392.50	-	894,107					
393.00	-	2,879,930					
394.00	-	8,646,393					
395.00	-	1,346,599					
396.00	-	2,256,950					
397.00	-	41,014,208					
398.00	-	2,651,170					
Total	18,762,073	155,886,276	2,502,179		56,299,028		2,312,939
Total Depreciable Plant	$ 3,483,800,821	$ 4,372,472,774	$ 754,049,929		$ 16,044,469,581		$ 662,003,408
Weighted Average Remaining Life					21.3		
			Excess Reserve Refund	(000)	$ 250,000		$ 219,483
			Proposed accelerated amort.		$ 50,000		$ 43,897
			Implied Amortization	21.3 yrs	$ 11,749		$ 10,315
			Net Depr. Expense Impact		$ 38,251		$ 33,581

PROGRESS ENERGY FLORIDA, INC.

Net Salvage Expense Adjustment

Account No.	Net Salvage 5-Year (1)	Net Salvage 10-Year (2)	Original Cost 12/31/2005 (3)	Net Salvage Rate (4)	Net Salvage Expense (5)	Juris-Dictional Factor (6)	Jurisdictional Net Salvage Expense (7)
Transmission Plant							
352.00	$ (790)	$ (4,874)	$ 20,849,257	-0.30%	$ (62,259)	0.71429	$ (44,471)
353.10	315,403	799,340	414,268,405	-0.07%	(299,257)	0.74116	(221,797)
354.00	(660)	213	69,046,582	-0.33%	(227,159)	0.71429	(162,257)
355.00	314,871	83,065	286,307,703	-0.55%	(1,580,555)	0.71429	(1,128,975)
356.00	173,042	113,576	219,665,492	-0.64%	(1,408,906)	0.71429	(1,006,368)
358.00	-	(156)	9,496,402	-0.12%	(11,842)	0.71429	(8,459)
Total	$ 801,867	$ 991,162	$ 1,019,633,841		$ (3,589,978)		$ (2,572,326)
Distribution Plant							
361.00	$ 1,497	$ (510)	$ 22,197,122	-0.09%	$ (19,593)	0.99602	$ (19,515)
362.00	239,359	415,040	370,197,611	-0.58%	(2,162,868)	0.99600	(2,154,216)
364.00	(525,984)	(809,308)	476,919,626	-4.58%	(21,851,801)	0.99770	(21,801,541)
365.00	80,103	154,314	490,725,359	-0.64%	(3,150,145)	0.99694	(3,140,506)
366.00	(121,430)	(64,720)	172,047,364	0.00%	(1,281)	0.99753	(1,278)
367.00	(452,495)	(517,771)	449,948,372	-0.58%	(2,592,541)	0.99809	(2,587,589)
368.00	(109,404)	(285,175)	418,313,232	-0.26%	(1,101,620)	1.00000	(1,101,620)
369.10	(29,970)	(392,548)	78,975,538	-2.77%	(2,189,684)	1.00000	(2,189,684)
369.20	(41,915)	110,865	376,216,307	-0.72%	(2,718,514)	1.00000	(2,718,514)
370.00	(170,301)	(70,206)	126,354,464	-0.27%	(342,311)	0.98877	(338,467)
373.00	(271,103)	(121,404)	266,817,319	-1.26%	(3,352,918)	0.99951	(3,351,275)
Total	$ (1,401,643)	$ (1,581,423)	$ 3,248,712,314		$ (39,483,276)		$ (39,404,206)
Total T&D	$ (599,776)	$ (590,261)	$ 4,268,346,155		$ (43,073,254)		$ (41,976,532)

PROGRESS ENERGY FLORIDA, INC.

Annual Revenue Requirements - Return, Depreciation and Income Taxes

Year	EOY Rate Base (1)	Depreciation Expense (2)	Return & Inc Tax (3)	Annual Revenue Requirement (4)	Accumulated Revenue Requirement (5)	Percent Of Total Revenue Requirement (6)	Pres Value Accum Return Of & On plus Income Tax (7)	Accum Return Of & On (8)	Percent of Total Return Of & On (9)
1	$ 1,000	$ 38	$ 100	$ 138	$ 138	5%	$ 138	$ 138	10%
2	962	38	96	134	272	11%	125	263	20%
3	924	38	92	130	402	16%	114	377	28%
4	886	38	89	127	529	21%	103	480	36%
5	848	38	85	123	652	26%	94	574	43%
6	811	38	81	119	770	30%	85	659	49%
7	773	38	77	115	886	35%	77	735	55%
8	735	38	73	111	997	39%	69	805	60%
9	697	38	70	108	1,105	43%	63	867	64%
10	659	38	66	104	1,208	47%	56	924	69%
11	621	38	62	100	1,308	51%	51	975	72%
12	583	38	58	96	1,405	55%	46	1,020	76%
13	545	38	55	92	1,497	59%	41	1,061	79%
14	508	38	51	89	1,586	62%	37	1,098	81%
15	470	38	47	85	1,670	66%	33	1,131	84%
16	432	38	43	81	1,752	69%	29	1,161	86%
17	394	38	39	77	1,829	72%	26	1,187	88%
18	356	38	36	73	1,902	75%	23	1,210	90%
19	318	38	32	70	1,972	77%	21	1,231	91%
20	280	38	28	66	2,038	80%	18	1,249	93%
21	242	38	24	62	2,100	82%	16	1,265	94%
22	205	38	20	58	2,158	85%	14	1,279	95%
23	167	38	17	55	2,213	87%	12	1,291	96%
24	129	38	13	51	2,264	89%	11	1,302	97%
25	91	38	9	47	2,311	91%	9	1,311	97%
26	53	38	5	43	2,354	92%	8	1,319	98%
27	15	38	2	39	2,393	94%	7	1,326	98%
28	(23)	38	(2)	36	2,429	95%	6	1,332	99%
29	(61)	38	(6)	32	2,461	96%	5	1,336	99%
30	(98)	38	(10)	28	2,489	98%	4	1,340	99%
31	(136)	38	(14)	24	2,513	99%	3	1,344	100%
32	(174)	38	(17)	20	2,533	99%	3	1,346	100%
33	(212)	38	(21)	17	2,550	100%	2	1,348	100%
Total		$ 1,250	$ 1,300	$ 2,550					

Assumptions:

Life = 33 years
Net Savage = -.25%
Depreciation Rate = 3.79%
ROR & Income Tax = 10%
Discount Rate = 7%

PROGRESS ENERGY FLORIDA, INC.

Excess Decommissioning Reserve Refund

Line	Description	Note	Amount (000) (1)
1	Tax Qualified Trust Balance		$ 74,902
2	Approximate income Tax Cost	Inc. Tax Cost at 20%	$ 14,980
3	After Tax Cash Balance	Line 1 less Line 2	$ 59,922
4	Amortization (5yrs)	Line 3 / 5	$ 11,984
5	NOI and Income Tax Reduction	Line 6 * Line 7	$ 5,668
6	Rate Base Adjustment	Line 3 less 1/2 Line 4	$ 53,929
7	Pre-Tax Rate of Return	ROE 9.8%	10.51%
8	**Revenue Impact**	Line 6 + Line 11	**$ 17,652**