

ORIGINAL

MEMORANDUM

August 3, 2005

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COMMISSION
CLERK

TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES

FROM: OFFICE OF THE GENERAL COUNSEL (BRUBAKER) JSB

RE: DOCKET NO. 050078-EI Petition for rate increase by Progress Energy Florida, Inc.

Please file the attached STAFF'S PREHEARING STATEMENT, to be filed in the above-referenced docket.

DATE DOCUMENT SENT TO CCA 8/3/05

JSB/pz
Attachment
I:2005/050078/050078Prehearing.Statement.jsb.doc

CMP _____
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DOCUMENT NUMBER-DATE

07511 AUG-3 05

FPSC-COMMISSION CLERK

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Progress Energy Florida, Inc. | DOCKET NO. 050078-EI
| FILED: AUGUST 3, 2005

STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-05-0487-PCO-EI, filed May 4, 2005, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

- Thomas E. Stambaugh
- Carl S. Vinson, Jr. and William "Tripp" Coston
- Sidney W. Matlock

b. All Known Exhibits

- TES-1 (Staff Audit Report, Docket 050078-EI)
- CV/TC-1 (July 2005 Staff operations audit)
- SWM-1 (Distribution Reliability Indexes of Progress Energy Florida, Inc.)

c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

d. Staff's Position on the Issues

TEST YEAR AND FORECASTING

ISSUE 1: Is PEF's projected test period of the twelve months ending December 31, 2006 appropriate?

POSITION: Yes.

ISSUE 2: Are PEF's forecasts of customer growth, KWH by revenue class, and system KW for the projected test year appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

DOCUMENT NUMBER-DATE

07511 AUG-3 05

FPSC-COMMISSION CLERK

ISSUE 3: Are PEF's forecasts of billing determinants by rate class for the projected test year appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

QUALITY OF SERVICE

ISSUE 4: Is the quality and reliability of electric service provided by PEF adequate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 5: Is PEF's customer complaint resolution process adequate?

POSITION: This Issue should be dropped.

ISSUE 6: Is PEF's pole inspection, repair, and replacement program sufficient for the purpose of providing reasonable transmission and distribution service?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 7: Is PEF's vegetation management program sufficient for the purpose of providing reasonable transmission and distribution service?

Are PEF's vegetation management and animal and pest control programs sufficient for the purpose of providing reasonable transmission and distribution service? (White Springs' issue)

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 8: Pursuant to the requirements of Order No. PSC-02-0655-AS-EI, did PEF achieve a 20 percent distribution reliability improvement for 2004 compared to its performance in 2000?

POSITION: Staff has no position pending evidence adduced at hearing.

DEPRECIATION STUDY

ISSUE 9: What should be the implementation date for PEF's depreciation rates and recovery/amortization schedules?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 10: For each of the depreciation accounts shown in Progress Energy Florida's Exhibit No. RHB-7, Volume 1- 3, and summarized depreciation rates in Exhibit JP-4, pages 1-9:

- (a) Has PEF employed an appropriate average service life, survivor curve, and/or reserve percentage in the calculation of the depreciation rate? If not, what is the appropriate factor(s), and what is the impact, if any, on (i) the depreciation rate and (ii) PEF's depreciation reserve? Provide a position for each affected account.
- (b) Has PEF employed the appropriate net salvage factor in the calculation of the proposed depreciation rate? If not, what is the appropriate factor, and what is the impact, if any, on (i) the depreciation rate and (ii) the depreciation reserve? Provide a position statement for each affected account.

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 11: Based on the relationship between current depreciation parameters as approved by the Commission in this case and PEF's book reserve, what is PEF's depreciation reserve posture? How should PEF's reserve position be treated for ratemaking purposes?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 12: Is PEF's \$250 million accrued debit to the bottom line reserve balance allocation appropriate based upon the approved settlement agreement in Order No. PSC-02-0655-AS-EI?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 13: Based on the decisions on foregoing issues, what are the appropriate depreciation rates and recovery/amortization schedules?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 14: Should the current amortization of investment tax credits and flow back of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules?

POSITION: Staff has no position pending evidence adduced at hearing.

FOSSIL DISMANTLEMENT COST STUDY

ISSUE 15: Should PEF's currently approved annual fossil dismantlement accrual be revised?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 16: Should any reserve allocations be made within the fossil dismantlement accounts?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 17: What is the appropriate annual accrual for PEF's fossil dismantlement?

What is the appropriate annual accrual amount for nuclear decommissioning?

POSITION: Staff has no position pending evidence adduced at hearing.

NUCLEAR DECOMMISSIONING COST STUDY

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 18: Should the currently approved annual nuclear decommissioning accruals for PEF be revised?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 19: Should a contingency allowance be applied to the estimated cost of nuclear decommissioning and if so, what percentage contingency should be used?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 20: Should the total estimated cost of nuclear decommissioning include a provision for on-site storage of spent fuel beyond the termination of the operating license of Crystal River Unit 3?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 21: Is the Nuclear Decommissioning Trust Fund appropriately funded? If not, what adjustments, if any, should be made to the balance?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 22: What should be the effective date for adjusting PEF's annual accrual for nuclear decommissioning?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 23: What is the appropriate disposition of the accumulated balance of nuclear amortization?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 24: Is the annual accrual to the nuclear maintenance reserve reasonable?

POSITION: Staff has no position pending evidence adduced at hearing.

RATE BASE

ISSUE 25: Are the projected balances of plant in service accurate and reasonable?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 26: Is the inclusion of and the amount of electric plant acquisition adjustment included in rate base appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 27: Should PEF's proposed change in capitalization policy be approved? If the answer is yes, has PEF adequately supported and proven the impact of the change on the 2006 test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 28: Are any modifications to past PEF financial statements required as a result of the consideration of the proposed change in capitalization policy? If so, what are the effects, if any, on the 2006 test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 29: What adjustment should be made to test year plant in service related to Hines Unit 2?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 30: Are the capital costs associated with the Hines Unit 3 generating unit appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 31: Are any adjustments to rate base necessary to reflect any impacts of the sale or disposition of the electric distribution system to the City of Winter Park?

Should any adjustments be made to rate base as a result of the municipalization of the Winter park system?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 32: Should adjustments be made for the rate base effects of PEF's transactions with affiliated companies?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 33: Should the capitalized items currently approved for recovery through the Environmental Cost Recovery Clause be included in rate base?

POSITION: No.

ISSUE 34: How should the Commission's decision in PEF's storm damage docket be reflected in this case?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 35: What adjustments should be made to test year rate base to account for Mobile Meter Reading equipment?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 36: Is PEF's requested level of Plant in Service in the amount of \$8,363,233,000 (\$9,029,628,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 37: Are the projected balances of accumulated depreciation accurate and reasonable?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 38: Is PEF's requested level of Accumulated Depreciation and Accumulated Amortization in the amount of \$4,051,946,000 (\$4,394,317,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 39: Is PEF's requested level of CWIP in the amount of \$82,105,000 (\$244,471,000 \$98,597,000 system) for the projected test year appropriate?

Is PEF appropriately accruing AFUDC on CWIP for the projected test year?
(White Springs' issue)

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 40: Is PEF's requested level of Property Held for Future Use in the amount of \$6,054,000 (\$7,921,000 system) for the projected test year appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 41: What adjustment, if any, should be made to the test year rate base concerning nuclear decommissioning?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 42: What adjustments, if any, should be made to the projected test year rate base to account for spent nuclear fuel storage?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 44: Has PEF reflected the appropriate accumulated provision for uncollectibles?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 47: What adjustment, if any, should be made to recoverable job orders that PEF included in working capital?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 48: What is the appropriate cash balance that the Commission should include in working capital?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 49: What adjustment, if any, should the Commission make to the accounts receivable from associated companies that PEF included in working capital?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 50: What amount of total unbilled revenue should be allocated to the jurisdictional retail customers for purposes of computing allowable working capital?

Is the method used by PEF for calculating the increase in unbilled revenues by rate class appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 51: What is the appropriate amount of derivative assets, if any, that the Commission should allow to be included in working capital?

What adjustments, if any, should be made to projected test year rate base to recognize implementation of Statement of Financial Accounting Standards Nos. (FAS) 133/137, Accounting for Derivative Instruments and Hedging Activities? WCA

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 52: What is the appropriate amount of employees' receivables, if any, that the Commission should allow to be included in working capital?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 53: What adjustment, if any should be made to the unamortized rate case portion of PEF's proposed working capital?

Should unamortized rate case expense be included in working capital, and if so, what is the appropriate amount?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 54: What adjustment, if any, should be made to the prepaid advertising expense portion of PEF's proposed working capital?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 55: Should an adjustment be made to prepaid pension expense? (White Springs' issue)

POSITION: Based on staff's review of the MFRs, staff audit report, testimony, and discovery responses, this is not at issue in this docket and the Issue should therefore be dropped.

ISSUE 56: Should an adjustment be made to working capital to exclude prepaid interest?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 57: Should adjustments be made to working capital to exclude the vacation pay accrual asset? (White Springs' issue)

POSITION: No. The vacation pay accrual asset compensates for the timing difference between vacation earned and vacation taken for payroll that will be charged to construction projects. Pursuant to Order No. PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for rate increase by Florida Power Corporation, p. 26, no adjustments should be made to working capital to exclude the vacation pay accrual asset.

ISSUE 58: Should an adjustment be made to working capital for unfunded Other Post-retirement Employee Benefit (OPEB) liability? (White Springs' issue)

POSITION: Based on staff's review of the MFRs, staff audit report, testimony, and discovery responses, this is not at issue in this docket and the Issue should therefore be dropped.

ISSUE 59: Has PEF properly included in its working capital two turbines that PEF intends to install in Hines Unit 4?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 60: Should other accounts receivable be reduced to exclude loans to employees?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 61: Should an adjustment be made to working capital to exclude prepayments for non-utility advertising?

POSITION: Yes. Working capital should be reduced by \$2,304,839 to remove prepaid, non-utility advertising expenses.

ISSUE 62: Should working capital for the projected test year be adjusted for interest on tax deficiencies?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 63: Should an adjustment be made to Accrued Taxes Payable and Tax Collections Payable in working capital?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 64: Should the net overrecovery/underrecovery of fuel, capacity, conservation, and environmental cost recovery clause expenses for the test year be included in the calculation of working capital allowance for PEF?

POSITION: Yes. Deferred fuel revenue should be increased by \$4,133,000. Working capital should be decreased by \$4,133,000.

ISSUE 65: Is PEF's level of Account 151, Fuel Stock, in the amount of \$126,077,000 (\$138,356,000 system) for the projected test year appropriate?

What adjustments, if any, should be made to PEF's fuel inventories?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 66: What adjustment, if any, should be made to test year working capital to account for costs related to the transfer of fuel procurement and transportation operations from Progress Fuels Corporation to PEF?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 67: Has PEF properly estimated the amount of storm damage reserve that will be available for the projected test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 68: Has PEF accounted for its Asset Retirement Obligations in accordance with Rule 25-14.014, F.A.C., Accounting for Asset Retirement Obligations under SFAS 143, such that it is revenue neutral?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 69: Is PEF's requested level of Working Capital Allowance in the amount of \$183,593,000 (\$220,083,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 70: What is the appropriate reserve goal for Account 228.1, Accumulated Provision for Property Insurance – Storm Damage?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 71: Are any adjustments to rate base necessary to reflect the impacts of the sales or disposition of assets resulting from the exercising of the purchase options in expired or expiring franchise agreements?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 72: Is PEF's requested level of Rate Base in the amount of \$4,640,452,000 (\$5,277,387,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

POSITION: Staff has no position pending evidence adduced at hearing.

COST OF CAPITAL

ISSUE 73: Has PEF appropriately treated deferred income tax debit balances and deferred tax asset balances in its proposed capital structure? If not, what adjustments are needed?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 74: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 75: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 76: Has FAS 109 been appropriately reflected in the capital structure, such that it is revenue neutral?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 77: What is the appropriate cost rate for short-term debt for the projected test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 78: What is the appropriate cost rate for long-term debt for the projected test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 79: In setting PEF's return on equity (ROE) for use in establishing PEF's revenue requirements and authorized range, should the Commission make an adjustment to reflect PEF's performance?

Commercial Group's suggested language: In setting PEF's return on equity (ROE) for use in establishing PEF's revenue requirements and authorized range, is PEF's performance superior to that of other similar electric utilities and if so, should the Commission make an adjustment to reflect PEF's performance?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 80: What is the appropriate cost rate for common equity to use in establishing PEF's revenue requirement for the projected test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 81: When determining the appropriate capital structure for PEF for ratemaking purposes, to what extent, if any, should the Commission base its determination on the capital structure of holding company Progress Energy?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 82: Should adjustments be made for the capital structure effects of PEF's transactions with affiliated companies?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 83: Should the Commission approve PEF's request to impute additional common equity in its capital structure for ratemaking purposes to adjust for PEF's power purchase contracts?

Is PEF's proposal to impute common equity to balance off-balance sheet debt reasonable?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 84: When determining the appropriate capital structure, should the Commission accept PEF's adjustment to reflect the impact of the 1996 settlement of Crystal River 3 outage issues?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 85: When determining the appropriate capital structure, should the Commission accept PEF's proposal to exclude commercial paper associated with unrecovered fuel cost?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 86: What is the appropriate capital structure for PEF?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 87: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure? This is a calculation based upon the decisions in preceding issues.

POSITION: Staff has no position pending evidence adduced at hearing.

NET OPERATING INCOME

ISSUE 88: Are PEF's estimated revenues for sales of electricity by rate class appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 89: Are PEF's estimated other operating revenues appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 90: Are any adjustments to net operating income necessary due to Winter Park's purchase of PEF's electric distribution system within Winter Park?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 91: Has PEF made the appropriate adjustments to remove fuel revenues, expenses and revenue taxes recoverable through the Fuel Adjustment Clause?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 92: Has PEF made the appropriate adjustments to remove the capacity cost revenues, expenses and revenue taxes recoverable through the Capacity Cost Recovery Clause?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 93: Has PEF made the appropriate adjustments to remove environmental revenues, expenses and revenue taxes recoverable through the Environmental Cost Recovery Clause?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 94: Has PEF made the appropriate adjustments to remove conservation revenues, expenses and taxes recoverable through the Conservation Cost Recovery Clause?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 95: Has PEF properly removed Off-System Sales revenues, expenses and taxes other for wholesale sales and included retail for the projected test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 96: Is PEF's requested level of Total Operating Revenues in the amount of \$1,482,222,000 (\$1,615,187,000 system) for the projected test year appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 97: What adjustments, if any, should be made to Generation O&M expenses?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 98: What adjustment should be made to test year O&M related to Hines Unit 2?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 99: Are the O&M costs associated with the Hines Unit 3 generating unit appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 100: What adjustment should be made to test year expenses to account for A&G expense related to the transfer of fuel procurement and transportation operations from Progress Fuels Corporation to a new consolidated organization?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 101: Are PEF's recently implemented capitalization policies reasonable and appropriate? Did PEF accurately reflect the impact of the change in policy in its filing? What adjustments to operating income are necessary to reflect an appropriate capitalization policy?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 102: Should an adjustment be made to PEF's requested level of security expense related to the increased threat of terrorist attacks since September 11, 2001?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 103: Are the costs included in the projected test year for incentive compensation and employee bonuses reasonable and appropriate? Should all of the projected incentive compensation and bonus costs be funded by ratepayers?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 104: Is the employee complement included in the projected test year accurate and reasonable? If no, what adjustments, if any, are necessary?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 105: Has PEF made the proper adjustment to remove the effect of vacancies on the labor complement?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 106: Should an adjustment be made to reduce costs related to temporary staff?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 107: Should an adjustment be made to employee relocation expense for the projected test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 108: Should an adjustment be made for new employees hired and the related moving expenses?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 109: Is the level of overhead cost allocations for the projected test year appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 110: Should an adjustment be made to Account 926, Employee Benefits, for the projected test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 111: Is PEF's projected test year accrual for medical/life reserve-active employees and retirees appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 112: Is PEF's requested level of Other Post Employment Benefits Expense for the projected test year appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 113: Are the amounts included in the projected test year for costs allocated to PEF from affiliated companies reasonable and appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 114: Has PEF made the appropriate adjustment to remove non-utility expenses?

Has PEF properly allocated expenses between regulated and non-regulated operations?

POSITION: Based on staff's review of the MFRs, staff audit report, testimony, and discovery responses, this is not at issue in this docket and the Issue should therefore be dropped.

ISSUE 115: Are all impacts of the Cost Management Initiative appropriately reflected in the projected test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 116: What adjustments, if any, should be made to Transmission O&M expenses?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 117: What adjustment, if any, should be made to PEF's proposed level of vegetation management expense?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 118: Should an adjustment be made to street and outdoor light maintenance expense?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 119: What adjustments, if any, should be made to Distribution O&M expenses?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 120: What adjustment should be made to test year expenses to account for Mobile Meter Reading expense savings?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 121: Should an adjustment be made to Account 904, Uncollectible Accounts, for the projected test year and what is the appropriate factor to include in the revenue expansion factor?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 122: Should an adjustment be made to remove image building or other advertising expenses?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 123: Should an adjustment be made for economic development activities? (930)

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 124: Are industry association dues included in the projected test year and, if so, should an adjustment be made to remove them?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 125: Has PEF budgeted to fund the NEI Utility Waste Management Group, and if so, should an adjustment be made to remove it?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 126: Should an adjustment be made to remove a portion of EEI dues?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 127: Has PEF made the appropriate adjustments to remove charitable contributions?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 128: Should an adjustment be made to Account 912, Demonstrating and Selling Expenses for the projected test year?

Are sales expenses appropriately allocated to the retail jurisdiction? (Accts. 911-917)

POSITION: Based on staff's review of the MFRs, staff audit report, testimony, and discovery responses, this is not at issue in this docket and the Issue should therefore be dropped.

ISSUE 129: Should an adjustment be made to Insurance Expense for the projected test year? (926)

(a) What is the appropriate amount of NEIL distribution to be included in the test year?

(b) What amount of directors and officers liability insurance costs should be included in the test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 130: Is PEF's requested \$50,000,000 annual accrual for storm damage for the projected test year appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 131: Should an adjustment be made to Account 928, Regulatory Commission Expense, for rate case expense for the projected test year and what is the appropriate amortization period?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 132: Should the costs currently recovered through the Environmental Cost Recovery Clause be recovered through base rates pursuant to Section 366.8255(5), Florida Statutes?

POSITION: No.

ISSUE 133: Is PEF's O&M Expense of \$612,136,000 (\$673,859,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 134: What adjustments, if any, should be made to PEF's projected test year net operating income to account for spent nuclear fuel O&M expenses?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 135: What adjustments, if any, should be made to the projected test year expenses to recognize implementation of FAS 143, Accounting for Asset Retirement Obligations?

POSITION: Operation and Maintenance expense should be reduced by \$184,933 to reflect the appropriate amount of test year accretion expense.

ISSUE 136: What adjustments, if any, should be made to the projected test year expenses to recognize implementation of FAS 133/137, Accounting for Derivative Instruments and Hedging Activities?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 137: What adjustment, if any, should the Commission make to the test year Depreciation and Amortization Expense that PEF included in its filing? This is a calculation based upon the decisions in preceding issues.

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 138: Are any adjustments to the projected test year amortization of the net gain on sale of assets appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 139: Should interest on tax deficiencies for the projected test year be included above-the-line?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 140: Is PEF's Taxes Other Than Income of \$113,631,000 (\$122,653,000 system) for the projected test year appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 141: Should a Parent Debt Adjustment be made for the projected test year and if so, what is the appropriate amount of the adjustment?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 142: Has PEF appropriately calculated the adjustment to taxable income to reflect the domestic manufacturer's tax deduction which was attributable to the American Jobs Creation Act?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 143: Are consolidating tax adjustments appropriate, and if so, what are the appropriate amounts for the projected test year for PEF?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 144: Is PEF's Income Tax Expense of \$210,164,000 (\$229,517,000 system) which includes current and deferred income taxes and interest reconciliation for the projected test year appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 145: Is PEF's projected Total Operating Expenses of \$1,167,239,000 (\$1,270,623,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 146: Is PEF's Net Operating Income of \$314,983,000 (\$344,564,000 system) for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

POSITION: Staff has no position pending evidence adduced at hearing.

REVENUE REQUIREMENTS

ISSUE 147: What is the appropriate projected test year revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for PEF?

- a. Has PEF appropriately included the impacts of the domestic manufacturer's tax deduction attributable to the 2004 American Jobs Creation Acts in the determination of the net operating income multiplier?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 148: What is PEF's annual operating revenue requirement for the projected 2006 test year?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 149: Is PEF's proposed increase of \$206,000,000 for the projected test year appropriate? This is a calculation based upon the decisions in preceding issues.

POSITION: Staff has no position pending evidence adduced at hearing.

COST OF SERVICE AND RATE DESIGN

ISSUE 150: Is PEF's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 151: What is the appropriate cost of service study to be used in designing PEF's rates?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 152: How should any change in revenue requirements approved by the Commission be allocated among the customer classes?

ISSUE 153: What are the appropriate demand charges?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 154: What are the appropriate energy charges?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 155: What are the appropriate customer charges?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 156: What are the appropriate service charges?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 157: What are the appropriate lighting rate schedule charges?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 158: What are the appropriate premium distribution service charges?

POSITION: For the demand-metered rate classes, the appropriate premium distribution service charge is \$1.18 per kWh. For the GS-1 and GST-1 rates, the appropriate charge is \$0.80 per kWh. For the GS-2 rate, the appropriate charge is \$0.162 per kWh.

ISSUE 159: What are the appropriate delivery voltage credits?

POSITION: The appropriate delivery voltage credits are \$0.40 per kW for distribution primary delivery voltage and \$1.01kW for transmission delivery voltage.

ISSUE 160: What are the appropriate power factor charges and credits?

POSITION: The appropriate power factor charges and credits are \$0.25 per kVAr.

ISSUE 161: What is the appropriate lump sum payment for time-of-use metering costs?

POSITION: The appropriate lump sum payment for residential and general service non-demand time-of-use metering is \$132.00.

ISSUE 162: What are the appropriate monthly fixed charge carrying rates to be applied to the installed cost of customer-requested distribution equipment, lighting service fixtures, and lighting service poles for which there are no tariffed charges?

POSITION: The appropriate monthly fixed charge carrying rate to be applied to the installed cost of customer-requested distribution equipment and lighting service poles is 1.67%. The appropriate methodology to calculate the fixed charge carrying rate to be applied to lighting fixtures is shown in Schedule E-14 Supplement, Schedule F, Part 5a, Page 1 of 1. PEF should revise the calculation based on the Commission's vote on PEF's weighted average cost of capital.

ISSUE 163: What are the appropriate charges and credits under the Firm, Interruptible, and Curtailable Standby Service rate schedules?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 164: What is the appropriate level for the interruptible credit for PEF's industrial customers?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 165: Should the Commission approve PEF's proposal to eliminate its IS-1, IST-1, CS-1 and CST-1 rate schedules and transfer the current customers to otherwise applicable rate schedules?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 166: Should the Commission approve a Real Time Pricing rate schedule for PEF? (Commercial Group's issue)

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 167: Should the Commission approve PEF's proposal to make its Commercial/Industrial Service Rider pilot program permanent?

POSITION: Yes. The Commercial/Industrial Service Rider pilot program should be made permanent.

ISSUE 168: Should the Commission approve PEF's proposal to eliminate the special provision in its Lighting Service rate schedule that allows customers to make an up-front lump sum payment for lighting facilities?

POSITION: Yes. No customers have elected this option to date, and therefore it should be eliminated.

ISSUE 169: Should the Commission approve PEF's proposal to increase the minimum term of service under its Lighting Service rate schedule from six to ten years?

POSITION: Yes. A ten-year minimum term will insure the recovery of a larger portion of the capital costs of new lighting installations.

ISSUE 170: What is the appropriate effective date for PEF's revised rates and charges?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 171: Is PEF's allocation of costs among customer classes appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 172: Should a delivery level be added for primary level customers with minimal or no PEF-owned distribution equipment?

POSITION: Staff has no position pending evidence adduced at hearing.

OTHER ISSUES

ISSUE 173: Should the Commission approve PEF's request to move into base rates the security costs that result from heightened security requirements since September 11, 2001 from Capacity Cost Recovery Clause?

POSITION: Yes; the appropriate amount to be included in base rates is to be determined in Issue 102.

ISSUE 174: Should PEF continue to seek recovery of incremental security costs above the amount included in base rates through the Capacity Cost Recovery Clause? If so, what mechanism should be used to determine the incremental security costs?

POSITION: PEF may continue to seek recovery of incremental security costs above the amount included in base rates through the Capacity Cost Recovery Clause in accordance with the method and process approved by Order PSC-03-1461-FOF-EI, issued December 22, 2003, in Docket No. 030001.

ISSUE 175: Should PEF be allowed to recover incremental hedging costs in excess of its base rate amount through the Fuel and Purchased Power Cost Recovery Clause, and if so, should netting be required in the clause for these costs?

POSITION: This Issue should be dropped; this is a matter which is more appropriately addressed in the Fuel and Purchased Power Cost Recovery Clause docket.

ISSUE 176: What is the appropriate resource mix for both PEF's generation fleet and PEF's purchased power commitments?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 177: Should any incentives be placed on PEF to improve generation plant fuel efficiency?

POSITION: This Issue should be dropped; this is a matter which is more appropriately addressed in the Fuel and Purchased Power Cost Recovery Clause docket.

ISSUE 178: Should PEF be required to bear any fuel price related risk?

POSITION: This Issue should be dropped; this is a matter which is more appropriately addressed in the Fuel and Purchased Power Cost Recovery Clause docket.

ISSUE 179: Has Progress Energy realized the cost savings and efficiencies promised at the time of the merger?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 180: Are PEF's claimed legal expenses reasonable and appropriate?

POSITION: Staff has no position pending evidence adduced at hearing.

ISSUE 181: Are PEF's conservation programs and their administration reasonable and appropriate?

POSITION: This Issue should be dropped; Issue 94 addresses adjustments relative to the Conservation Cost Recovery Clause which are relevant to this docket.

ISSUE 182: Has PEF adequately demonstrated that its compensation and benefit plans are reasonable?

POSITION: This Issue should be dropped; compensation and benefit plans are more appropriately addressed in other Issues, such as Issues 103, 107, 110, 111, and 112.

ISSUE 183: Are PEF's accounting systems appropriate and do they contain adequate controls to ensure that PEF's customers do not pay costs not properly allocated to jurisdictional service?

POSITION: This Issue should be dropped; it is duplicative of Issue 150.

ISSUE 185: What should the appropriate policy be regarding PEF's responsibility/ability to hedge fuel costs and to recover associated hedging costs?

POSITION: This Issue should be dropped; this is a matter which is more appropriately addressed in the Fuel and Purchased Power Cost Recovery Clause docket.

ISSUE 186: What is the appropriate allocation between PEF and its ratepayers for revenues from wholesale sales from regulated generation, transmission and distribution assets?

POSITION: This Issue should be dropped; it is duplicative of Issue 150.

ISSUE 187: Should a delivery level be added for primary level customers with minimal or no PEF-owned distribution equipment?

POSITION: This Issue should be dropped; it is duplicative of Issue 172.

ISSUE 188: Should PEF be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records that will be required as a result of the Commission's findings in this rate case?

POSITION: Yes.

ISSUE 189: Should this docket be closed?

POSITION: Staff has no position at this time.

ISSUE 190: What is the appropriate adjustment to account for the increase in unbilled revenue due to any recommended rate increase? (Cost of Service and Rate Design)

POSITION: Staff has no position at this time.

ISSUE 191: Should the O&M expense items currently approved for recovery through the Environmental Cost Recovery Clause be included in base rates? (NOI)

POSITION: No.

ISSUE 192: Should a Parent Debt Adjustment be made for the projected test year and if so, what is the appropriate amount of the adjustment? (NOI).

POSITION: Pursuant to Rule 25-14.004, F.A.C., the Commission should make a parent debt adjustment to PEF's income tax allowance. The amount of the adjustment should be based on evidence adduced at hearing.

e. Stipulated Issues

There are no issues that have been stipulated at this time.

f. Pending Motions

Staff has no pending motions at this time.


g. Pending Confidentiality Claims or Requests

Staff has no pending confidentiality claims or requests.

h. Compliance with Order No. PSC-05-0487-PCO-EI.

Staff has complied with all requirements of the Order Establishing Procedure entered in this docket.

Respectfully submitted this 2nd day of August, 2005.



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BEFORE THE PUBLIC SERVICE COMMISSION

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

DOCKET NO. 050078-EI

DATED: August 3, 2005

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of STAFF'S PREHEARING STATEMENT was furnished by electronic and U.S. Mail to **Carlton Fields Law Firm**, Gary Sasso, Esq./James Walls, Esq./John Burnett, Esq. at P.O. Box 3239, Tampa, Florida 33601-3239, and that a copy of same was furnished to the following, by U.S. Mail, on this 3rd day of August, 2005.

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