BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Rate Increase by Progress Energy Florida, Inc. ______________________________/

Docket No: 050078-EI
Filed: August 3, 2005

THE FLORIDA INDUSTRIAL POWER USERS GROUP'S PREHEARING STATEMENT

The Florida Industrial Power Users Group (FIPUG), pursuant to Order No. PSC-05-0487-PCO-EI as modified by Order No. PSC-05-0792-PCO-EI, hereby files its Prehearing Statement. Appearing on behalf of the Florida Industrial Power Users Group are:

JOHN W. MCWHIRTER, JR., McWhirter, Reeves & Davidson, P.A., 400 North Tampa Street, Suite 2450, Tampa, Florida 33601, and

TIMOTHY J. PERRY, McWhirter, Reeves & Davidson, P.A., 117 South Gadsden Street, Tallahassee, Florida 32301.

A. WITNESSES:

1. **Philip K. Porter, Ph.D.** Dr. Porter's testimony addresses the past and present financial market conditions as they pertain to Progress Energy Florida (PEF) and evaluates the testimony of PEF witnesses Vander Weide and Cicchetti.

2. **Jacob Pous**[1] Mr. Pous' testimony addresses the treatment of the excess imbalance in PEF's accumulated provision for depreciation, and the adjustments necessary to correct inappropriate and unsupportable net salvage proposals for eleven transmission and distribution plant accounts within PEF's depreciation study.

B. EXHIBITS:

Philip K. Porter, Ph.D.

PKP-1	Appendix A: Vita of Philip K. Porter, Ph.D.
PKP-2	Appendix B: Variations in Beta
PKP-3	Appendix C: Using Geometric Versus the Arithmetic Mean to Estimate the Cost of Equity Capital
PKP-4	Appendix D: Historic Annual Yields

[1] FIPUG is co-sponsoring the testimony of Jacob Pous with the Office of Public Counsel.

PKP-5	Appendix E: Risk Analysis of PEF

Jacob Pous

JP-Appendix A	Resume and List of Filed Testimony
JP-1	Summary of Recommended Depreciation Expense
JP-2	Earl Robinson's Deposition, specific pages
JP-3	Company's 2003 Depreciation Study, specific pages
JP-4	Company's Response to Citizens Interrogatory 204
JP-5	10-Year Site Plan 2003
JP-6	Net Salvage Recommendation – Specific Accounts
JP-7	Historical Cost of Removal Versus Age of Retirement Graph – Account 364
JP-8	Earl Robinson Testimony – Kansas City Gas Service Docket No. 03-KGSG-602-RTS, page 24
JP-9	Company's 2002 Depreciation Study, specific pages
JP-10	Company's Response to Citizens Interrogatory 174

In addition, FIPUG reserves the right to introduce other exhibits during cross-examination.

C. STATEMENT OF BASIC POSITION:

The evidence in this case supports reducing, not increasing, PEF's rates. FIPUG will argue that the rate of return sought by PEF is excessive. Further, PEF's preferred cost of service methodology is inappropriate and the significant changes to its interruptible tariffs are unsupported. In addition, to be fair to ratepayers, the Commission should order a portion of PEF's depreciation reserve surplus to be reduced fairly rapidly. Finally, in the event the Commission should grant a rate increase, no customer class or subclass should be required to pay more than 1.5 times the system average increase.

D. STATEMENT OF ISSUES AND POSITIONS:

TEST YEAR AND FORECASTING

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

FIPUG: Yes.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

QUALITY OF SERVICE

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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?

FIPUG: No position at this time.

DEPRECIATION STUDY

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

FIPUG: January 1, 2006.

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.

FIPUG: No.

(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 deprecation reserve? Provide a position statement for each affected account.

FIPUG: No.

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?

FIPUG: Agree with OPC.

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?

FIPUG: Yes

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

FIPUG: Agree with OPC.

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?

FIPUG: No.

FOSSIL DISMANTLEMENT COST STUDY

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

FIPUG: Yes.

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

FIPUG: Agree with OPC.

ISSUE 17/18A: What is the appropriate annual accrual for PEF's fossil dismantlement?

FIPUG: Agree with OPC.

NUCLEAR DECOMMISSIONING COST STUDY

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

FIPUG: No.

ISSUE 18A/17: What is the appropriate annual accrual for PEF's fossil dismantlement?

FIPUG: Agree with OPC.

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

FIPUG: No position at this time.

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?

FIPUG: Yes.

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

FIPUG: No position at this time.

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

FIPUG: January 1, 2006.

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

<u>FIPUG:</u> It should remain in trust and accrue interest.

<u>ISSUE 24</u>: Is the annual accrual to the nuclear maintenance reserve reasonable?

<u>FIPUG:</u> Yes.

<u>RATE BASE</u>

<u>ISSUE 25</u>: Are the projected balances of plant in service accurate and reasonable?

<u>FIPUG:</u> No.

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

<u>FIPUG:</u> No.

<u>ISSUE 27</u>: 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?

<u>FIPUG:</u> No.

<u>ISSUE 28</u>: 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?

<u>FIPUG:</u> The policy should not be changed.

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

<u>FIPUG:</u> The plant in service should be the depreciated value shown at the end of 2005 in Docket 040001-EI.

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

<u>FIPUG:</u> No, they should be adjusted to reflect the presently authorized cost of capital.

<u>ISSUE 31</u>: 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?

<u>FIPUG:</u> Agree with the Florida Retail Federation.

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

FIPUG: Agree with the Florida Retail Federation.

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

FIPUG: No position at this time.

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

FIPUG: Yes.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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.

FIPUG: No. Agree with OPC.

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

FIPUG: No. Agree with OPC.

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.

FIPUG: No. Agree with OPC.

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

FIPUG: No. Agree with OPC and the Florida Retail Federation.

ISSUE 39A: Is PEF appropriately accruing AFUDC on CWIP for the projected test year?

(White Springs' issue)

FIPUG: No. Agree with White Springs.

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?

FIPUG: No. Agree with OPC.

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

FIPUG: Agree with OPC.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: Agree with OPC.

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

FIPUG: Agree with OPC.

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

FIPUG: Agree with OPC. PEF should not be allowed a return on money owed by an affiliated company.

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

FIPUG: No position at this time.

ISSUE 50A: Is the method used by PEF for calculating the increase in unbilled revenues by rate class appropriate?

FIPUG: No position at this time.

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

FIPUG: None.

ISSUE 51A: 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

FIPUG: Hedging activities should be examined annually in the fuel clause and not considered in base rates.

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

FIPUG: None. Agree with OPC.

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

FIPUG: Agree with OPC.

ISSUE 53A: Should unamortized rate case expense be included in working capital, and if so, what is the appropriate amount?

FIPUG: No.

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

FIPUG: No return should be allowed on prepaid advertising expense.

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

FIPUG: Agree with White Springs.

ISSUE 56: Should an adjustment be made to working capital to exclude prepaid interest? (White Springs' issue)

FIPUG: Yes.

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

FIPUG: Yes.

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

FIPUG: Agree with White Springs.

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

FIPUG: No. The items are not in use and useful service and should accrue AFUDC if they are destined for rate base.

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

FIPUG: Yes.

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

FIPUG: Yes.

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

FIPUG No

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

FIPUG: Agree with OPC.

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?

FIPUG: No.

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?

FIPUG: No position at this time.

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

FIPUG: No position at this time.

ISSUE 66: What adjustment should, if any, 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?

FIPUG: No position at this time.

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

FIPUG: No. Agree with OPC.

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?

FIPUG: No position at this time.

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.

FIPUG: No.

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

FIPUG: Agree with OPC.

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?

FIPUG: No position at this time.

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.

FIPUG: No. The amount should be $4,397,330,000.

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?

FIPUG: Agree with OPC.

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

FIPUG: Agree with OPC.

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

FIPUG: Agree with OPC.

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

FIPUG: Agree with OPC.

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

FIPUG: Agree with OPC.

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

FIPUG: Agree with OPC.

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?

FIPUG: No.

ISSUE 79A: **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?

FIPUG: No.

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

FIPUG: 8.8%.

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?

FIPUG: PEF's bond ratings and analyst's stock valuations are governed by the activities of the holding company rather than PEF's independent financial strength. The Commission should base PEF returns on PEF's financial position and disregard bond ratings and financial analysts downgrades based on the risk of the parent corporation.

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

FIPUG: No.

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?

FIPUG: No. Florida law prohibits requiring consumers to pay a return on phantom equity.

ISSUE 83A: Is PEF's proposal to impute common equity to balance off-balance sheet debt reasonable?

FIPUG: No.

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?

FIPUG: No. The 1996 settlement stipulation has run its course.

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

FIPUG: Agree with OPC.

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

FIPUG: Agree with OPC.

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.

FIPUG: Agree with OPC.

NET OPERATING INCOME

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

<u>FIPUG:</u> No position at this time.

<u>ISSUE 89</u>: Are PEF's estimated other operating revenues appropriate?

<u>FIPUG:</u> No position at this time.

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

<u>FIPUG:</u> No position at this time.

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

<u>FIPUG:</u> No position at this time.

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

<u>FIPUG:</u> No position at this time.

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

<u>FIPUG:</u> No position at this time.

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

<u>FIPUG:</u> No position at this time.

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

<u>FIPUG:</u> No position at this time.

<u>ISSUE 96</u>: 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?

<u>FIPUG:</u> Yes.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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?

FIPUG: No position at this time.

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?

FIPUG: There is inadequate evidence presented to justify increasing expenses for items that have a prolonged useful life.

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?

FIPUG: No position at this time.

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?

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

ISSUE 114A: Has PEF properly allocated expenses between regulated and non-regulated operations?

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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?

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

ISSUE 128A: Are sales expenses appropriately allocated to the retail jurisdiction? (Accts. 911-917)

FIPUG: No position at this time.

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?

FIPUG: No position at this time.

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

FIPUG: Agree with OPC.

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?

FIPUG: No position at this time.

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?

FIPUG: Yes.

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.

FIPUG: Agree with OPC.

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?

FIPUG: No position at this time.

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?

FIPUG: No position at this time.

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?

FIPUG: Volatile hedging costs and profits should be dealt with in the fuel docket

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.

FIPUG: PEF should reduce its rate $211,000,000 per year to amortize excess depreciation charges imposed upon current customers

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

FIPUG: No position at this time.

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

FIPUG: No.

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

FIPUG: No position at this time.

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?

FIPUG: No position at this time.

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?

FIPUG: No position at this time.

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

FIPUG: Electric customers should not be charge for taxes PEF will not have to pay as a result of filing a consolidate tax return with non regulated companies.

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?

FIPUG: No position at this time.

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.

FIPUG: No. The sum should be $972,233,000.

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.

FIPUG: No. The net income is $509,989,000

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?

FIPUG: Agree with OPC.

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?

FIPUG: No position at this time.

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

FIPUG: $1,121,274,000

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.

FIPUG: No. PEF should reduce its rates by $368,653,000.

COST OF SERVICE AND RATE DESIGN

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

FIPUG: No position at this time.

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

FIPUG: The production plant costs should be allocated using the summer and winter peak month method as set forth by White Springs.

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

FIPUG: Using the summer and winter peak month method set forth by White Springs for production plant.

ISSUE 153: What are the appropriate demand charges?

FIPUG: Agree with White Springs.

ISSUE 154: What are the appropriate energy charges?

FIPUG: Energy charges should be based on real time cost as promulgated by the Commercial Group. In the event the Commission adopts PEF's proposed capital substitution cost of service methodology, the energy charges should be appropriately adjusted to reflect the additional capital costs allocated to high load factor consumers.

ISSUE 155: What are the appropriate customer charges?

FIPUG: Customer charges should be adjusted by the same percentage as base rates.

ISSUE 156: What are the appropriate service charges?

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

ISSUE 159: What are the appropriate delivery voltage credits?

FIPUG: Agree with White Springs.

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

FIPUG: Agree with White Springs

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

FIPUG: The original meter cost should be assigned to the customer purchasing the meter and treated as CIAC.

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?

FIPUG: No position at this time.

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

FIPUG: Agree with White Springs.

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

FIPUG: Agree with White Springs.

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?

FIPUG: No.

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

FIPUG: Yes.

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

FIPUG: Yes.

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?

FIPUG: No position at this time.

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?

FIPUG: No position at this time.

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

FIPUG: The first billing period in January 2006.

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

FIPUG: No. The elimination of the IS-1, IST-1, CS-1 and CST-1 rate schedules results in a base rate increase for these customers that is over 4 times the average proposed increase, which would result in rate shock if approved. If the Commission determines to eliminate the schedules, the rate reduction should be comparable to the average rate reduction. In the event a rate increase is granted, the base rate increase to customers on these schedules should be no more than 1.5 times the average increase.

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

FIPUG: No position at this time.

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?

FIPUG: Yes.

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?

FIPUG: No. These costs should be included in base rates. Once included in base rates, increased revenues attributable to customer growth will defray or cover any incremental costs.

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?

FIPUG: No.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: No position at this time.

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

FIPUG: This is not an appropriate issue for this case.

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

FIPUG: No.

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?

FIPUG: No position at this time.

ISSUE 184: Is PEF's allocation of costs among customer classes appropriate?

FIPUG: No. A base rate increase for IST-1 customers that is 450 percent greater than the average increase is outrageous.

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

FIPUG: This is an issue for ongoing review in the fuel cost recovery 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?

FIPUG: As long as customers pay the costs of the employees providing these functions through base rates and the facilities are included in rate base customers should be credited with 100% of the gross revenue from the sales.

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

FIPUG: No position at this time.

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?

FIPUG: Yes.

ISSUE 189: Should this docket be closed?

FIPUG: Yes, upon entry of a final order and the expiration of the time for appeal.

ISSUE 190: What is the appropriate adjustment to account for the increase in unbilled revenue due to any recommended rate increase?

FIPUG: 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?

FIPUG: Yes.

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?

FIPUG: No position at this time.

E. STIPULATED ISSUES

FIPUG: None at this time.

F. PENDING MOTIONS OR OTHER MATTERS

FIPUG: None at this time.

G. PENDING CLAIMS OF CONFIDENTIALITY

FIPUG: None at this time.

H. COMPLIANCE WITH ORDER NO. PSC-05-0487-PCO-EI AS MODIFIED BY ORDER NO. PSC-05-0792-PCO-EI

I.

FIPUG: At this time, FIPUG believes it can comply with all parts of Order No. PSC-05-0487-PCO-EI as modified by Order No. PSC-05-0792-PCO-EI

I. OBJECTIONS TO WITNESS QUALIFICATIONS

FIPUG: None at this time. However, FIPUG reserves the right to raise any such objections at the time of the Prehearing Conference or at Hearing.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing The Florida Industrial Power Users Group's Prehearing Statement has been furnished by e-mail and U.S. Mail this 3rd day of August 2005 to the following:

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