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August 3, 2005

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

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

Dear Ms. Bayó:

Enclosed are an original and fifteen copies of Citizens' Prehearing Statement for filing in the above-referenced docket.

Also enclosed is a 3.5 inch diskette containing Citizens' Prehearing Statement in Microsoft Word format. Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

Sincerely,

Joe A. McGlothlin

Joseph A. McGlothlin
Associate Public Counsel

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Petition for a Rate Increase by Progress Energy Florida, Inc.	))	Docket No. 050078-EI Filed: August 3, 2005

CITIZENS' PREHEARING STATEMENT

Pursuant to Order No. PSC-05-0487-PCO-EI, the Citizens of the State of Florida, through their attorney, the Public Counsel, hereby file this Prehearing Statement in the above docket.

APPEARANCES:

HAROLD MCLEAN
Public Counsel
JOSEPH A. MCGLOTHLIN
Associate Public Counsel
PATRICIA CHRISTENSEN
Associate Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida

(1) WITNESSES:

The Citizens intend to call the following witnesses, who will address the issues indicated:

NAME	ISSUES
James A. Rothschild	Cost of capital
Jacob Pous[1]	Depreciation
Donna DeRonne	Overall financial summary/revenue requirement; operating income multiplier; rate case expense; uncollectibles; service company incentive compensation; Insurance expense; vegetation management; property taxes; impacts of plant adjustments on depreciation; separation of Winter Park system

[1] Mr. Pous will be co-sponsored by the Florida Industrial Power Users Group.

Hugh Larkin, Jr.	Depreciation; working capital; cost from components of rate base; construction work in progress; plant held for future use
Helmuth W. Schultz	Appropriate annual storm accrual; management/employee incentive bonus plans; capitalization policy; payroll allocation

(2) EXHIBITS:

Through Mr. Rothschild, the Citizens intend to introduce the following schedules, which can be identified on a composite basis:

ID No.	Subject
JAR-1	Overall Cost of Capital
JAR-2	Cost of Equity
JAR-3	Financial Data on Comparative Companies
JAR-4	Comparative Companies --Selected Financial Data
JAR-5	Discounted Cash Flow
JAR-6	Full Discounted Cash Flow (Electric)
JAR-7	Full Discounted Cash Flow (Gas)
JAR-8	External Financial Rate
JAR-9	Inflation Risk Premium Method
JAR-10	CAPM Method
JAR-11	Forecast v. Actual Interest Rates
JAR-12	Returns v. Beta
JAR-13	Geometric v. Arithmetic
JAR-14	Articles
JAR-15	Interrogatories/PODS
JAR-16	Testifying Experience of James A. Rothschild

On behalf of OPC and FIPUG, Mr. Pous will sponsor the following schedules, which can be identified on a composite basis:

JP-Appendix A	Resume and List of Prefiled Testimony
JP-1	Summary of Recommended Depreciation Expense
JP-2	Transcript of 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 April 2003
JP-6	Net Salvage Recommendation – Specific Accounts
JP-7	Historical Cost of Removal v. Age of Retirement Graph–Acct. 364
JP-8	Earl Robinson Testimony – Kansas 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

Through Ms. DeRonne, the Citizens intend to introduce the following schedules, which can be identified on a composite basis:

DD-1 (A)	Revenue Requirement
DD-1(A-1)	Net Operating Income Multiplier
DD-1(B-1)	Adjusted Rate Base
DD-1(C-1)	Adjusted Net Operating Income
DD-1(C-2)	Uncollectible Expense
DD-1(C-3)	Distribution Vegetation Management Expense
DD-1(C-4)	Property Tax Expense
DD-1(C-5)	Impact of Adjustments to PIS on Depreciation
DD-1(C-6)	Income Tax Expense
DD-1(C-7)	Interest Synchronization Adjustment
DD-1(D)	Overall Cost of Capital, per OPC
DD-2	Qualifications of Donna DeRonne, CPA

Through Mr. Larkin, the Citizens intend to introduce the following schedules, which can be identified on a composite basis:

HL-1	Qualifications of Hugh Larkin, Jr.
HL-2(B-1)	Adjustments to Plant In Service
HL-2(B-2)	Working Capital

Through Mr. Schultz, the Citizens intend to introduce the following schedules, which can be identified on a composite basis:

HS-1	Qualifications of Helmuth W. Schultz III, CPA
HS-2(Schedule 1)	Storm Damage Accrual
HS-2(Schedule 2)	Incentive Compensation
HS-2(Schedule 3)	Payroll
HS-2(Schedule 4)	Payroll Tax Expense
HS-2(Schedule 5)	Healthcare Expense
HS-2(Schedule 6)	Changing Practices

(3) STATEMENT OF BASIC POSITION:

In its rate case filing, PEF severely overreaches. Its overstated request for an authorized return on equity of 12.8% bears no relationship to actual conditions in the capital markets. Similarly, its proposed capital structure includes an inflated equity ratio that bears no resemblance to the manner in which PEF's operations are actually financed and that, if accepted, would simply overcharge retail customers and require the regulated utility operations to subsidize Progress Energy's riskier, unregulated activities. The Commission should authorize a return on equity of 9.1% and apply, for rate making purposes, the consolidated capital structure of the Progress Energy entities. Corrections to PEF's proposed cost of capital, standing alone, more than offset its request for a base rate increase, and OPC witnesses have identified numerous other needed adjustments.

PEF's own depreciation study identifies a depreciation reserve excess of $504 million. Even PEF's large calculated imbalance is understated, as in its study PEF distorted net salvage factors for T&D plant accounts. Application of more appropriate net salvage factors for these accounts yields an overall reserve excess of $1.2 billion. Given the enormity of the reserve excess, PEF's approach of returning the excess to customers over 19.5 years is wholly insufficient to address the intergenerational inequity that the $1.2 billion reserve excess imposes on current customers. PEF can and should mitigate the inequity in a manner that does not affect its ability to raise capital adversely. The Commission should adopt the recommendation of OPC/FIPUG witness Jacob Pous, who conservatively bifurcated the reserve excess into one portion that would be flowed back to customers over 4 years and another that would, as the Company proposed, be returned over the remaining lives of the accounts.

OPC will identify additional adjustments in the individual positions that follow. Calculations based on all of OPC's adjustments reveal that PEF's current rates should be reduced so as to generate $360 million fewer revenues annually.

(4-6) <u>ISSUES AND POSITIONS:</u>

TEST YEAR AND FORECASTING

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

<u>OPC</u>: OPC takes no position on this issue.

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

<u>OPC</u>: OPC takes no position on this issue.

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

<u>OPC</u>: OPC takes no position on this issue.

QUALITY OF SERVICE

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

<u>OPC</u>: OPC disagrees with PEF's financial incentive programs, the goals of which are unrelated to customer service. OPC also disputes PEF's claim for a "bonus" in the form of an "adder" to ROE. These positions will be developed in response to other issues.

<u>ISSUE 5</u>: Is PEF's customer complaint resolution process adequate?

<u>OPC</u>: OPC takes no position on this issue.

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

OPC: OPC takes no position on this issue.

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

OPC: OPC supports an increase in test year O&M expense related to a more aggressive vegetation management program, but believes PEF has not supported the outsized and unrealistic increase it has proposed. OPC's position will be developed further in response to a separate issue. (DeRonne)

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?

OPC: OPC takes no position on this issue. If the Commission concludes the condition was met, OPC believes it does not constitute support for PEF's request for a "bonus"

DEPRECIATION STUDY

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

OPC: The date should correspond with the effective date of the rates that the Commission approves in this docket.

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-, pages 1-2:

(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 on (i) the depreciation rate and (ii) PEF's depreciation reserve?

OPC: OPC takes no position on 10(a).

(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 on (i) the depreciation rate and (ii) the deprecation reserve? Provide a position statement for each affected account.

OPC: With respect to Account 353.1, "Transmission Station Equipment," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate. In arriving at a net salvage factor of 0% (only a year after PEF had concluded it should be 10%) and even though in 2003 actual net salvage was a positive 24%), PEF's analyst incorporated negative gross salvage values—an impossibility—and anomalous cost of removal values in his analysis. When adjusted, the appropriate factor is equal to the existing value of a positive 10%. The impact of this adjustment is to reduce depreciation expense by $1,035,669 or an increase to the reserve excess of $41,426,841.

With respect to Account 355, "Transmission Poles and Fixtures," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate. PEF proposes a factor of -25%, even though only one of the most recent five banded data sets resulted in a negative value—and that was only -16%. Once adjusted, the appropriate factor is -15%. The impact of this adjustment is to reduce depreciation expense by $916,183, or a $28,630,770 increase in the reserve excess.

With respect to Account 356, "Transmission Conductors and Devices," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate. The Company proposes a value of -30%, even though the current rate is based on -20% and in the 2002 study PEF concluded -15% was appropriate. PEF's analyst discounted historical positive gross values without first investigating the nature of the salvage experience. He also emphasized anomalous 2003 data while ignoring a historical pattern of positive data. Once adjusted, the appropriate factor is -10%. The impact of this adjustment is to reduce depreciation expense by $1,317,991 or an increase in the excess reserve imbalance of $43,933,098.

With respect to Account 362, "Distribution Station Equipment," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate. PEF proposes to move from the current 15% to -15%. The thirty-point "swing" in net salvage would reduce the reserve excess by$111 million. Historically, only 3 years of 29 exhibited any negative data. PEF's 2002 study also recommended the continued use of a positive gross salvage. Once adjusted, the appropriate factor is zero percent. The impact of this adjustment is to reduce depreciation expense by $1,665,887, or an increase to the reserve excess of $55,529,642.

With respect to Account 364, "Distribution Poles, Towers and Fixtures," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate. PEF proposes to move from the current -25% to -90% net salvage. Based on data through 2002, PEF concluded a year earlier that -25% remained appropriate. PEF's analyst relied on negative 2001 data that he considered to be "bogus." PEF's recommendation also conflicts with its analyst's professed belief in gradualism, as well as the positive salvage it experienced as recently as 2003. Once adjusted, the appropriate factor is -35%. The impact of this adjustment is to reduce depreciation expense by $15,070,658, or an increase in the reserve excess of $262,305,794.

With respect to Account 365, "Distribution Overhead Conductors and Devices," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate. PEF's analyst used an assumption of negative gross salvage—an impossibility—in arriving at a proposed value of -25%. His inflation-based cost of removal model predicted COR so high (-188%) that he disregarded his own model and arbitrarily substituted -40%. Historical banded data refute PEF's proposal as well. Once adjusted, the appropriate factor is -15%. The impact of this adjustment is to reduce depreciation expense by $2,159,190, or an increase to the depreciation reserve excess of $49,072,536.

With respect to Account 367, "Distribution Underground Conductors and Devices," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate. PEF proposes to move from zero to -15% net salvage. In its 2002 study PEF concluded zero was still appropriate; in 2003, the most recent year for which data is available, PEF experienced positive 11% net salvage. Because PEF anticipates retirement will be accompanied by "abandonment in place," future cost of removal should decrease. Again, PEF's analyst's gross salvage trend analysis predicted impossible negative values; again, his inflation-based COR prediction was so extreme he heavily discounted it. Once adjusted, the appropriate factor is -5%. The impact of this adjustment is to reduce depreciation expense by $1,844,786, or an increase in the reserve excess of $44, 994,837.

With respect to Account 368 "Distribution Line Transformers," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate. PEF proposes to move from the current positive 15% to -10% net salvage. However, the trend of recent data is to zero net salvage. The overall average for the account is -7%, but this is likely skewed by past high disposal costs associated with PCB contamination. Once adjusted, the appropriate factor is -5%. The impact of this adjustment is to reduce depreciation expense by $1,380,432, or an increase in the reserve excess of $20,915,662.

With respect to Account 369.1, "Distribution Services," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate.

PEF proposes to move from the current -50% to -75% net salvage for the account. PEF concluded in its 2002 study that -50% remained appropriate; the only additional year of data since that study was performed showed zero percent net salvage. Therefore, there is no historical justification for the proposed increase in negativity. Once adjusted, the appropriate factor is continuation of the -50%. The impact of this adjustment is to reduce depreciation expense by $1,018,782 or an increase in the reserve excess of $19,743,885.

With respect to Account 369.2 "Distribution Services," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate. PEF proposes -25%. The historical overall average for the account is positive 4%. Focusing on the change from 2002 to 2003, the trend is toward zero net salvage, not a more negative value. Once adjusted, the appropriate factor is zero. This conclusion is reinforced by industry averages and the admission by the Company's analyst that abandonment of retirements is likely. The impact of this adjustment is to reduce depreciation expense by $3,197,837, or an increase in the reserve excess of $ 94,054,077.

With respect to Account 373, "Distribution Street Lighting," PEF has not employed an appropriate net salvage factor in the calculation of its proposed depreciation rate. PEF proposes to move from the current -10% to -20%. In its 2002 study PEF concluded the value should move in the opposite direction, from -10% to -5%. , With the exception of anomalous 2001 data that PEF's analyst agrees "doesn't make sense", the trend in data is more towards a zero percent net salvage level. Once adjusted, the appropriate factor is zero percent net salvage. The impact of this adjustment is to reduce depreciation expense by $4,934,540, or an increase in the reserve excess of $53,363,464.

(Pous)

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?

OPC: The application of appropriate current depreciation parameters reveals that PEF has a reserve excess of $1.2 billion. PEF's proposal to spread any reserve excess over 19.5 years (average remaining life) does nothing to address the inequity inherent in its significant excess position. The $700+ million excess related to PEF's use of distorted net salvage factors and the $130 million of excess nuclear decommissioning funds should be amortized over 4 years. The additional $504 million reserve excess identified by PEF in its own study should be flowed back over the remaining lives, as PEF proposed. OPC's approach is conservative, as the bifurcation ameliorates any potential impact on PEF, and deliberately leaves PEF in an excess position, thereby ensuring its net reserve position will not "go negative" prior to the completion of its next study in 2007. (Pous)

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?

OPC: OPC takes no issue with respect to the manner in which PEF allocated the $250 million accrued debit. OPC observes that, but for the accrued debit that grew between 2002 and 2005, PEF's current reserve imbalance (that is, the reserve excess) would be even more severe. (Pous)

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

OPC: The Commission should adopt Mr. Pous' recommendation and require PEF to amortize the reserve excess of $700+ million and the $130 million of excess nuclear decommissioning funds to customers over 4 years. If this is done, then PEF's proposed depreciation rates should be approved, as the Commission will have segregated for separate treatment the excess that is to be flowed back to customers more rapidly than the remaining lives of related assets.

If the Commission takes no action to remedy the intergenerational inequity created by the $1.2 billion reserve excess, the revised calculation of the excess position and application of PEF's remaining life methodology will result in an additional annual reduction (beyond that identified by PEF) in depreciation expense of $35 million, which should be reflected in depreciation rates. (Pous)

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?

OPC: Yes. The amortization of investment tax credits and the flow back of excess deferred income taxes are impacted by the plant lives. Changes in depreciation rate resulting from changes in plant lives will impact the amortization of investment tax credits and the flow back of excess deferred income taxes. This amount of revision is dependent on the Commission's findings with regards to depreciation/plant lives. (DeRonne)

FOSSIL DISMANTLEMENT COST STUDY

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

OPC: OPC takes no position on this issue.

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

OPC: OPC takes no position on this issue.

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

OPC: OPC takes no position on this issue.

NUCLEAR DECOMMISSIONING COST STUDY

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

OPC: OPC agrees with PEF's proposal to discontinue the accrual. Further, PEF asserts the $130 million excess in the fund should be returned to current customers over 4 years. It would be unfair and inequitable to require current customers, the source of the excess, to subsidize future customers to this extent. (Pous)

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

OPC: PEF's study confirms it already incorporates a contingency of 17.3%.In view of the fact that PEF acknowledges it has already collected its estimated decommissioning costs, plus a contingency, plus $130 million, OPC's recommendation for a 4-year amortization of $130 million over four years is conservative. If PEF's estimate changes, there is ample time to implement a new accrual for the purpose at that 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?

OPC: OPC does not believe any such on-site storage costs are properly considered a component of decommissioning costs.

ISSUE 21: What is the appropriate annual accrual amount for nuclear decommissioning?

Is the nuclear decommission reserve appropriately funded? If not, what action, if any, should be taken with respect to the balance?

OPC: Based on PEF's representation, there should be no accrual of additional expense. The excess of $130 million should be returned to current customers over 4 years. (Pous)

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

OPC: See response to Issue 9.

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

OPC: See response to Issue 21.

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

OPC: OPC takes no position at this time.

RATE BASE

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

OPC: No. Plant in service should be reduced to reflect the difference between actual compared to projected plant for December 2004 through the actual months available in 2005. This ratio should also be applied to the remaining balance of projected plant for 2005 and 2006. This results in a reduction to plant in service for the projected 2006 test year of $139,698,000 on a thirteen-month average basis. The jurisdictional amount is $129,459,000.

Projected test year plant in service should be increased by $25,301,000 on a jurisdictional basis to reflect the OPC's recommendation with regard to the change in capitalization policy, reflecting only 50% of PEF's proposed impact from the change. An additional adjustment to reduce plant in service for potential prior period overstatements of additions to plant in service associated with the prior capitalization policy may also be appropriate, pending additional information being provided by PEF.

Additional adjustments to plant in service associated with the sale of a portion of the distribution system to the City of Winter Park are also appropriate, however, PEF has not yet provided the information needed to quantify the impact of the sale on plant in service.

Total projected plant in service should be no more than $8,259,075, which is $104,158,000 less than the amount proposed by PEF. Again, this amount should be adjusted as a result of the sale of a portion of the distribution system to the City of Winter Park and possibly for overstatements of prior additions to plant in service from the previous capitalization policy. (Larkin, Schultz, DeRonne)

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

OPC: OPC takes no position on this issue.

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?

OPC: The accounting policy change may have merit, but the Company has not supported the claimed impact on the test year; nor has it addressed possible carry-over impacts from years past. To reflect the significant concern on the quantification, the Company's estimated impact on operating income and rate base should be reduced by 50% and the Company should be required to provide the amount of the overstatement of rate base for the 2002-2004 due to the questionable capitalization practice utilized during that time. Further, in the future, the Company should be required to provide detailed justification of any significant changes in accounting along with a detailed quantification of the impact on net operating income and/or rate base. For purposes of this rate proceeding, operating expenses should be reduced by $10,356,000 and rate base should be increased by $25,673,000 on a jurisdictional basis. (Schultz)

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?

OPC: The Company should be required to provide the amount of the overstatement of rate base for the 2002-2004 due to the questionable capitalization practice utilized during that time. The information needed to quantify the impact has not been provided by PEF at this time. (Schultz)

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

OPC: OPC takes no position on this issue at this time.

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

OPC: OPC takes no position on this issue at this time.

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?

OPC: Yes. On June 1, 2005, PEF finalized the sale and operational control to the City of Winter Park of the electric distribution system within the city's boundaries. None of the impacts from this sale are included in this rate filing nor has the Company been forthcoming with any actual or estimates of the impact that this transaction will have on the rate filing. The Commission should require the Company to provide the rate base impact, the reduction in operating expenses associated with the maintenance that will now be performed by the City, and the load and rate allocations to reflect that the City will be a wholesale customer. Additionally, the Commission should require the Company to submit supporting documents and calculations to determine the gain on sale of the assets, which should then be amortized over 5 years, consistent with typical treatment of gains on sale of utility assets. (DeRonne)

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

OPC: OPC takes no position on this issue at this time.

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

OPC: Yes.

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

OPC: The impact of the decision on how to treat extraordinary storm cost should be considered in this case in establishing the appropriate level of normal annual storm costs. Further, the lower business risk that stems from the decision provides additional reason to reject PEF's inflated equity ratio in capital structure. (Schultz; Rothschild)

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

OPC: None. PEF has adequately adjusted for the Mobile Meter Reading Equipment in its filing.

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.

OPC: Total projected plant in service should be no more than $8,259,075 on a jurisdictional basis, which is $104,158,000 less than the amount proposed by PEF. See OPC's position on Issue 25. Again, this amount should be adjusted further as a result of the sale of a portion of the distribution system to the City of Winter Park and possibly for overstatements of prior additions to plant in service from the previous capitalization policy. (Larkin, DeRonne, Schultz)

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

OPC: No. Accumulated depreciation should be: (1) reduced by $2,323,000 on a jurisdictional basis to reflect the recommended adjustments to plant in service addressed by OPC witness Larkin; (2) reduced by $83,856,000 on a jurisdictional basis to reflect the recommended flow-back of a portion of the excess depreciation reserve; and (3) increased by $895,000 to implement OPC's recommendation that only 50% of PEF's proposed adjustment for change in capitalization policy be reflected. Additional adjustments to accumulated depreciation are necessary to reflect the impact of the sale of a portion of the distribution system to the City of Winter Park and for the potential overstatement of prior years plant additions due to the previous capitalization policy. The final amount is subject to the resolution of other issues and additional information being provided by PEF with regards to the sale of the distribution system to the City of Winter Park and the change in capitalization policy. (DeRonne, Larkin, Schultz)

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.

OPC: No. The balance is overstated by at least $85,284,000. The final amount is subject to the resolution of other issues. (DeRonne)

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?

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

OPC: No. CWIP is plant that has not been completed and it is neither used nor useful in generating, transmitting, or delivering current service to ratepayers. CWIP should be excluded from rate base until such time as the cost of the project is considered reasonable and until it is providing service to customers. The Commission should apply its past policy of excluding CWIP from rate base unless needed to provide financial integrity during unusually heavy construction programs. It does not appear that PEF's times interest earned (TIE) ratio will be detrimentally affected to the point where CWIP would need to be included in rates in order to maintain a coverage ratio required by PEF's bond covenants. Finally, qualified construction projects outside of a rate proceeding are allowed to accrue allowance for funds used during construction (AFUDC), which provides for plant to be increased for the rate of return component incurred on CWIP. (Larkin)

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?

OPC: No. PEF has projected the same level of Plant Held for Future Use ($7,921,000) for both 2005 and 2006, which is the same balance maintained for 2003 and 2004. On PEF's FERC Form 1, the Company indicates that $6,459,553 of these costs represent land and land rights that were to be placed in service in May 2005. If the Form 1 is correct, there will only be a remaining balance in future use plant of $1,461,721. This results in a reduction of the 2006 13-month average balance by $6,459,000 ($4,937,000 jurisdictional). (Larkin)

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The Company's adjustment to increase working capital by $26,567,000 to remove recoverable job orders should be reversed. PEF has not shown why this amount should not be reflected as an asset, nor has the Company shown how removing work orders recoverable from a third party ca result in an increase in working capital. To properly reflect this removal, working capital should be decreased by double the Company's adjustment for $53,134,000 on a total company basis ($43,267,000 jurisdictional). (Larkin)

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

OPC: Unless PEF can justify why its projected 2006 cash balance of $11.3 million should be maintained, such a large balance should not be allowed in working capital. Working capital should be reduced by $11,357,000 ($10,317,000 jurisdictional). (Larkin)

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

OPC: Unless PEF can demonstrate that any or all of the $11.9 million of receivables from associated companies are related to providing retail service, $11,924,000 ($10,832,000 jurisdictional) should be excluded from working capital. (Larkin)

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

OPC: PEF has allocated 90.84% of unbilled revenues for the test year to retail customers. In the first five months of 2005, only 78.95% has been related to retail. Further, the impact of the sale of assets to the City of Winter Park would decrease this percentage as the City became a wholesale customer. A jurisdictional decrease to working capital of $8,151,000 should be made. (Larkin)

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

OPC: The OPC takes no position on this issue 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?

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

OPC: The non-hedged derivative assets and liabilities that result from the mark-to-market adjustments on the Company's balance sheet do not appear to result from cash transactions. Unless the Company can show that there is an outflow of dollars related to the derivatives, $23,471,000 ($21,321,000 jurisdictional) should be removed from the working capital calculation. (Larkin)

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

OPC: Loans from employees for heat pumps or other appliances and merchandise inventories should not be included in working capital. Ratepayers should not subsidize the Company's appliance sales. Employee receivables of $840,000 ($763,000 jurisdictional) and merchandise inventory of $262,000 ($242,000 jurisdictional) should be removed from working capital. (Larkin)

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?

OPC: The entire balance included in Working Capital by PEF for unamortized rate case expense should be removed. Costs associated with the current rate case should be expensed as incurred in 2005 and not deferred in 2006 or future periods. If PEF were to expense the cost in 2005, it would still earn a pro forma rate of return of over 12.35%. This return exceeds the requested ROE of 12.3% prior to and 12.8% after the inclusion of its requested ROE bonus for past performance. Earnings realized by PEF in 2005 year to date are more than adequate to recover its rate case costs in the current period. (DeRonne)

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

OPC: Prepayments for non-utility advertising of $2,301,000 ($2,133,000 jurisdictional) should be removed from working capital. See Issue 61. (Larkin)

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

OPC: OPC takes no position at this time pending further development.

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

OPC: OPC takes no position at this time pending further development.

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

OPC: OPC takes no position at this time pending further development.

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

OPC: OPC takes no position at this time pending further development.

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

OPC: The Company's purchase of two spare turbines to be used in the construction of Hines Unit 4 should have been charged to CWIP which accrued AFUDC, instead of materials and supplies. Working capital should be reduced by $46.8 million ($43,262,000 jurisdictional) (Larkin)

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

OPC: Yes, see Issue 52. (Larkin)

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

OPC: Prepayments for non-utility advertising is not appropriate to include in working capital as it is both promotional and non-utility in nature. An adjustment of $2,301,000 ($2,133,000 jurisdictional) should be made to remove these amounts from working capital. (Larkin)

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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?

OPC: Any clause net overrecoveries should be included as a reduction to working capital. Overrecoveries represent funds that the Company owes to customers that if excluded from working capital, customers would be providing the interest that the Company returned to them in the clause proceedings. PEF has inappropriately removed an energy conservation clause overrecovery in its projected test year. This is in violation of prior Commission orders and policy. As such, working capital should be reduced by $8,144,000 on a total company and jurisdictional basis. Net underrecoveries should not be included in working capital. (Larkin)

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?

OPC: The OPC takes no position on this issue at this time.

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?

OPC: The OPC takes no position on this issue at this time.

ISSUE 66A: Are any additional adjustments to working capital not covered under other issues appropriate?

OPC: Yes. Other investments are not utility related and should receive a rate of return from some other source. Therefore, working capital should be reduced by $550,000 ($500,000 jurisdictional) to remove these investments. (Larkin)

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

OPC: No. The appropriate level of the storm reserve should be $50 million, accumulated over five years, to provide a cushion in the event that the average costs of storms exceed the historical inflated average. It should also provide some coverage should another catastrophic season occur. The Company's average working capital for the projected test year is overstated by $19,574,000 ($18,976,000 jurisdictional). (Schultz)

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?

OPC: The OPC takes no position on this issue.

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.

OPC: No. PEF's requested Working Capital Allowance should be reduced by $137,206,000 to $46,387,000 on a jurisdictional basis for the projected test year. This issue is based upon the decisions in the preceding issue. (Larkin, DeRonne)

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

OPC: The appropriate reserve goal is $50 million. (Schultz)

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?

OPC: Yes, see Issue 31. (DeRonne)

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.

OPC: No. Based on the OPC's recommendations, rate base should be no more than $4,397,330 for the projected test year. As previously indicated, additional adjustments may be appropriate for the sale of the Winter Park distribution system to the City of Winter Park and for the impact of the prior capitalization policies on plant in service balances, which have not been quantified. The appropriate rate base is a fall-out amount from the decisions on preceding issues. (Larkin, DeRonne, Schultz, Pous)

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?

OPC: No. Any deferred tax balance that has been funded by rate payers should not be included as an offset to credit deferred income taxes in the capital structure. Accordingly, the debit deferred taxes related to the nuclear decommissioning fund estimated to total $52,804,000 on a 13-month average basis for 2006 should be removed from the capital structure. Any other debit deferred taxes which are funded should also be removed from the capital structure. (Larkin)

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

OPC: Based on the OPC's recommended rate base and capital structure, and OPC's recommended adjustments to accumulated deferred income taxes discussed in issue 73, above, accumulated deferred income taxes of $339,371,000 should be included in the capital structure. (Larkin, DeRonne)

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

OPC: $12,635,000 @ 9.10% (equity component); $7,091,000 @ 5.73% (debt component) (DeRonne; Rothschild)

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

OPC: The appropriate entry is ($43,183,000) @ 0%. (DeRonne)

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

OPC: OPC adopts PEF's rate of 4.04% (Rothschild)

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

OPC: OPC adopts PEF's cost of long-term debt. (Rothschild)

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?

OPC: No. Strong financial performance is its own "reward.". Further, an increase in the allowed rate of return above PEF's cost of capital would provide a disincentive to invest in cost-reducing programs. (Rothschild)

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

OPC: Based on witness Rothschild's DCF and CAPM analyses, the appropriate cost of equity is 9.1% (Rothschild)

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?

OPC: The Commission should adopt for PEF the capital structure of Progress Energy (consolidated). This is the manner in which the activities of PEF truly are financed. If anything, a case could be made to allocate a smaller portion of equity based on PEF's less risky business. (Rothschild)

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

OPC: The appropriate manner in which to take such transaction into account is to use the consolidated capital structure for ratemaking purposes. (Rothschild)

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?

OPC: No. It is inappropriate to single out a single factor affecting risk while excluding others that could mitigate risk. Further, to the extent PEF believes a particular capital structure is efficient, it is management's job to actually implement that capital structure, rather than ask ratepayers to pay for equity capital that does not exist. (Rothschild)

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?

OPC: No. While the adjustment was reasonable on a temporary basis, management has had more than enough time to modify the actual capital structure in light of the settlement. (Rothschild)

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

OPC: No. Use of the Progress Energy consolidated capital structure, which is the best indicator of how PEF's operations are actually financed, already results in a conservatively high equity ratio. (Rothschild)

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

OPC: The appropriate capital structure is shown on Ms. DeRonne's Schedule D, page 1, and below:

PROGRESS ENERGY FLORIDA
Projected Test Year Ended December 31, 2006
Overall Cost of Capital, per OPC

Description	Amounts Adjusted to Reflect OPC Cap. Ratios	OPC Rate Base & DIT Adjustments	Per OPC Adjusted Amounts	Ratio	Per OPC Cost Rate	Weighted Cost
	(A)	(B)	(C)	(D)	(E)	(F)
Common Equity	1,778,700	(112,126)	1,666,574	37.89%	9.10%	3.45%
Preferred Equity	21,276	(1,341)	19,935	0.45%	4.58%	0.02%
Long Term Debt	2,297,841	(144,851)	2,152,990	48.95%	5.73%	2.80%
Short Term Debt	157,445	(9,925)	147,520	3.35%	4.04%	0.14%
Customer Deposits	101,979	(6,429)	95,550	2.17%	5.92%	0.13%
Investment Tax Credit - Equity	13,485	(850)	12,635	0.29%	9.10%	0.03%
Investment Tax Credit - Debt	7,568	(477)	7,091	0.16%	5.73%	0.01%
Deferred Income Taxes	309,400	29,971	339,371	7.72%	0.00%	0.00%
FAS 109 DIT - Net	(46,088)	2,905	(43,183)	-0.98%	0.00%	0.00%
Total Capital Structure	4,641,606	(243,122)	4,398,484	100.00%		6.57%

Source/Reference:

Cols. (A) & (E): Amounts are sponsored by Citizens' witness James A. Rothschild and may be found on Sch. JAR 1, page 2, included with Mr. Rothschild's testimony.

Cols. (B), (C) & (D): See page 2

(DeRonne; Rothschild)

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.

OPC: Based on the capital structure delineated in Issue 86, the overall weighted cost of capital is 6.57%. (Rothschild, DeRonne)

NET OPERATING INCOME

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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?

OPC: On June 1, 2005, PEF finalized the sale and operational control to the City of Winter Park of the electric distribution system within the city's boundaries. None of the impacts from this sale are included in this rate filing nor has the Company been forthcoming with any actual or estimates of the impact that this transaction will have on the rate filing. The Commission should require the Company to provide the rate base impact, the reduction in operating expenses associated with the maintenance that will now be performed by the City, and the load and rate allocations to reflect that the City will be a wholesale customer. Additionally, the Commission should require the Company to submit supporting documents and calculations to determine the gain on sale of the assets, which should then be amortized over 5 years, consistent with typical treatment of gains on sale of utility assets. (DeRonne)

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

OPC: The OPC takes no position on this issue at this time.

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?

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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?

OPC: The OPC takes no position on this issue at this time.

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?

OPC: The OPC takes no position on this issue at this time. This appropriate amount is a fall-out amount from the decision on prior issues.

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

OPC: The OPC takes no position on this issue.

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

OPC: The OPC takes no position on this issue.

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

OPC: The OPC takes no position on this issue.

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?

OPC: The OPC takes no position on this issue 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?

OPC: The accounting policy change may have merit, but the Company has not supported the claimed impact on the test year; nor has it addressed possible carry-over impacts from years past. To reflect the significant concern on the quantification, the Company's estimated impact on operating income and rate base be reduced by 50% and the Company should be required to provide the amount of the overstatement of rate base for the 2002-2004 due to the questionable capitalization practice utilized during that time. Further, in the future, the Company should be required to provide detailed justification of any significant changes in accounting along with a detailed quantification of the impact on net operating income and/or rate base. For purposes of this rate proceeding, operating expenses should be reduced by $10,356,000 and rate base should be increased by $25,673,000 on a jurisdictional basis. (Schultz)

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?

OPC: The OPC takes no position on this issue 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?

OPC: The Company's requested test year incentive compensation level has increased significantly since 2002 while the employee complement has remained relatively stable. Further, the purpose of this compensation is to promote the interests of the shareholders and does not mention customers or customer service. The Company's incentive compensation plan includes three specific programs: the Employee Cash Incentive Plan (ECIP), the Management Incentive Compensation Plan (MICP) and the Long-term Incentive Plan (LTIP). First, for the ECIP, the goals are questionable, not set to create a true incentive and any benefit from performance flows to the shareholders not to customers. Equal sharing of this cost is recommended. For the MICP and LTIP, the goals are specifically focused on financial results and rewards are tied to performance. No operating goals that are tied to customer service or satisfaction are tied to the rewards. Clearly no benefit to the ratepayers for these plans have been identified and as such, the cost for these plans should be born by the shareholders. The appropriate O&M expense reduction for incentive compensation is $7,967,000 ($7,143,000 jurisdictional). (Schultz)

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

OPC: While no adjustment is recommended, the Company's filing reflects some downsizing in employees but it is questionable as to whether the filing reflects the full impact of the proposed reduction. (Schultz)

Issue 104A: Is the amount of payroll expense included in the projected test year reasonable and appropriate?

OPC: No. The Company's projected payroll expense of $156 million for base pay and overtime is considered excessive and a reduction of $7,985,000 ($7,253,000 jurisdictional) is recommended. The Company increased the expense factor from 54% in 2002 and 2003 to 57% in 2006 without providing any justification through the filing or testimony. Further, while no adjustment is recommended, the Company's filing reflects some downsizing in employees but it is questionable as to whether the filing reflects the full impact of the proposed reduction. (Schultz)

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: Healthcare expense is overstated by $3,046,351 ($2,767,305 jurisdictional) because the company used an estimate for 2004 as a starting point which was higher than the 2004 actual cost. PEF also overstated the 2005 inflation trend and the cost per employee, and understated the clearing account credit for 2006. The recommended healthcare cost per employee of $5,448 was multiplied by the 4,131 number of employees projected for 2006. The total was then reduced by a 54.25% expense factor to equal an annual expense of $12,209,837. (Schultz)

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue 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?

OPC: Service Company Incentive Compensation from Progress Energy Service Company should be disallowed, resulting in a $5,671,000 ($4,983,000) reduction to expense. (Schultz, DeRonne)

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

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The Company's 2006 projected distribution vegetation management expense of $26.26 million is 70% higher than actual 2004. The OPC recommends the 2006 distribution vegetation management expense be set at $23.1 million, which is 50% higher than the 2004 actual and close to the amount budgeted for 2005. This results in a $3,145,000 ($3,137,000 jurisdiction) reduction to the amount included by PEF. Additionally, PEF should be required to provide quarterly reports to the Commission reflecting actual expenditures for this function. In the event PEF does not actually spend the amount it receives in rates for vegetation management costs, the amount under-spent should be deferred and returned to ratepayers. Considering the substantial projected increase coupled with the lack of supporting detail, such a deferral would be appropriate in this instance. (DeRonne)

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: Distribution O&M expense should be reduced by $3,145,000 ($3,137,000) jurisdictional), to reflect the OPC's recommendation that the projected distribution vegetation management expense be reduced. See Issue 117. (DeRonne)

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

OPC: None. PEF has adequately adjusted for the Mobile Meter Reading Expense savings in its filing.

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?

OPC: Yes. The 2006 projected bad debt factor is excessive and should be reduced to reflect a normalized level. In order to reflect the variability and normal fluctuation of uncollectible expense over time, it is appropriate to use a 4-year average of historical bad debt factors using the years 2001 to 2004. The normal 4-year average results in a bad debt factor of 0.144% for a total test year expense of $5,218,000, and a reduction of $1,080,000 to the expense requested in the filing. The 0.144% factor should be used in determining the revenue expansion factor. (DeRonne)

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue 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?

OPC: The OPC takes no position on this issue 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?

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: The OPC takes no position on this issue at this time.

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)

OPC: The OPC takes no position on this issue 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?

OPC: NEIL distributions to PEF offset the amount of nuclear property insurance costs incurred. While the NEIL distributions did decline from 2002 to 2004, the annual distributions have increased in 2005. Considering the distributions have increased in 2005 as compared to the decrease predicted by PEF in its filing, the 2005 level should be used to project the level that will be received in 2006. Thus, the test year NEIL distributions should be $2,834,700 which results in a decrease of $639,000 to insurance expense.

The purpose of D&O liability insurance is to protect the shareholders from the shareholders' own decisions. Ratepayers do not have input into who manages the Company, who serves on the Board of Directors, and certainly will not receive any compensation by insurance companies for losses incurred by shareholders for management or director mistakes or improprieties. As such, the costs associated with the protection of the shareholders' investment should be born by shareholders, not by the ratepayers. Accordingly, D&O liability insurance of $1,953,000 should be removed from test year expenses ($1,805,000 jurisdictional). (DeRonne)

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

OPC: No. The establishment of the annual accrual should not be intended to provide recovery of catastrophic damages such as those incurred in 2004. If such costs occur, PEF may seek consideration of a request for an appropriate surcharge or other mechanism. The appropriate annual accrual should be $12.5 million. This will provide for an annual replenishment of the reserve of $10 and an average expected charge against the reserve of $2.5 million. This results in a decrease to the Company's requested accrual of $37.5 million ($36,356,000 jurisdictional). (Schultz)

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?

OPC: The appropriate amount of rate case expense to include in base rates is zero and test year expenses should be decreased by $1.5 million. Citizens'analysis shows that not only does PEF not deserve any increase in rates, but instead its base rates should be decreased by $360,496,000. Even the Company's own Rate of Return Surveillance Report for April 2005 shows that it is earning a pro forma return on equity of 12.5%. Ratepayers should not be forced to fund an excessive level of rate case expense associate with a request for an increase that is so clearly imprudent and unreasonable. Further, the Commission should require the Company to expense the rate case costs in 2005 and not defer any amounts to 2006.

However, if the Commission disagrees with OPC that some level of rate case costs should be included in the test year, further adjustments are necessary to reduce the excessive hourly rates being charge to PEF by certain of its outside consultants.. OPC recommends that the project hourly costs associated with these outside consultants should be shared 50/50 between ratepayers and shareholders. PEF is free to retain the level of experts it chooses; however, ratepayers should not be burdened with excessive or unreasonable rate case costs. Finally, if the Commission does determine that some level of rate case expense should be granted for recovery in base rates, the proper amortization period should be set at four years. It has been over 12 years since PEF's last fully litigated base rate case. To now assume that another base increase will occur in two years is not reflective of past history or reasonable. (DeRonne)

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?

OPC: OPC favors recovery through base rates.

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.

OPC: No. The adjustments identified above should be made. (DeRonne)

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?

OPC: The OPC takes no position on this issue 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?

OPC: The OPC takes no position on this issue 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?

OPC: The OPC takes no position on this issue at this time.

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.

OPC: Depreciation expense should be reduced by $4,652,000 on a jurisdictional basis to reflect the recommended adjustments to plant in service addressed by OPC witnesses Larkin, by $164,586,000 on a jurisdictional basis to reflect the flow-back of a portion of excess depreciation reserve, by $32,439,000 to reflect the flow-back of excess decommissioning funds, and increased by $980,000 to reflect the OPC's position with regards to the change in charging practices. Additional adjustments, that have not been quantified, may be appropriate associated with the sale of a portion of the distribution system to the City of Winter Park and the impact of the past charging practices on plant in service. The final amount is subject to the resolution of other issues. (Pous, DeRonne, Schultz)

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

OPC: Yes. On June 1, 2005, PEF finalized the sale and operational control to the City of Winter Park of the electric distribution system within the city's boundaries. None of the impacts from this sale are included in this rate filing nor has the Company been forthcoming with any actual or estimates of the impact that this transaction will have on the rate filing. The Commission should require the Company to submit supporting documents and calculations to determine the gain on sale of the assets, which should then be amortized over 5 years, consistent with typical treatment of gains on sale of utility assets. (DeRonne)

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

OPC: The OPC takes no position on this issue at this time.

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

OPC: No. Property tax expense should be adjusted to correspond to the recommended plant in service adjustments by OPC witness Larkin and to remove the property taxes associated with an above market value of an asset transfer from plant in service to an affiliate entity. Accordingly, property tax expense should be reduced by $4,198,000 ($3,888,000 jurisdictional).

Additionally, payroll taxes should be reduced by $3,314,000 ($3,062,000 jurisdictional) to reflect the impact of OPC's recommended reductions to payroll and incentive compensation at an effective tax rate of 7.7%. (DeRonne)

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?

OPC: The OPC takes no position on this issue 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?

OPC: The OPC takes no position on this issue at this time. The OPC, however, is concerned that the impact of the Act on the effective state and federal income tax rate was not reflected in the Net Operating Income Multiplier.

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

OPC: The OPC takes no position on this issue at this time.

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?

OPC: No. Many adjustments in the filing impact both income tax expense and the interest reconciliation for the projected test year. This is a fall-out issue that is impacted by numerous other adjustments. (DeRonne)

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.

OPC: No. This is a fall-out issue that is impacted by numerous other adjustments. The OPC's current recommendations result in Total Operating Expenses of $972,233,000 for the projected test year. (DeRonne)

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.

OPC: No. This is a fall-out issue that is impacted by numerous other adjustments. The OPC's current recommendations result in Net Operating Income of $509,989,000 for the projected test year. (DeRonne)

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?

OPC: The appropriate revenue expansion factor is 61.2921%. The appropriate net operating income multiplier is 1.631533. The Company's multiplier should be adjusted to reflect a more appropriate bad debt factor of 0.144%. The OPC is also concerned that PEF did not reflect the impact of the domestic manufacturer's tax deduction attributable to the 2004 American Jobs Creation Acts in determining the effective state and federal income tax rates in determining the net operating income multiplier. (DeRonne)

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

OPC: This is a fall-out issue that is impacted by numerous other adjustments. The OPC's current recommendations result in annual required jurisdictional income of $289,034,000 for the projected test year. This results in excess revenues of $360,496,000. (DeRonne)

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.

OPC: No. This is a fall-out issue that is impacted by numerous other adjustments. The OPC's current recommendations result a recommended decrease of $360,496,000. (DeRonne)

COST OF SERVICE AND RATE DESIGN

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

OPC: OPC takes no position at this time.

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

OPC: OPC takes no position at this time.

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

OPC: OPC takes no position at this time.

ISSUE 153: What are the appropriate demand charges?

OPC: No position at this time.

ISSUE 154: What are the appropriate energy charges?

OPC: No position at this time.

ISSUE 155: What are the appropriate customer charges?

OPC: No position at this time.

ISSUE 156: What are the appropriate service charges?

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: No position at this time.

ISSUE 159: What are the appropriate delivery voltage credits?

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: No position at this time.

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?

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: OPC takes no position at this time.

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?

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: No position at this time.

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?

OPC: 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?

OPC: No position at this time.

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

OPC: Thirty days following the decision in this case.

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

OPC: No position at this time.

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

OPC: 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?

OPC: OPC favors recovery through base rates.

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?

OPC: No position at this time.

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?

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: See Issue No. 103.

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?

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: No position at this time.

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

OPC: 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?

OPC: Yes.

ISSUE 189: Should this docket be closed?

OPC:

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

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

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?

(7) STIPULATED ISSUES:

The Citizens are not aware of any stipulated issues at this time.

(8) PENDING MOTIONS

The Citizens First Motion to Compel Production of Documents from Progress Energy Florida, Inc. is the only pending motion Citizens are aware of at this time.

(9) PENDING CONFIDENTIALITY CLAIMS OR REQUESTS

The Citizens are not aware of any confidentiality issues at this time.

(10) COMPLIANCE WITH ORDER NO. PSC-05-0487-PCO-EI

The Citizens are not aware of any requirements of Order No. PSC-05-0487-PCO-EI with which parties cannot comply.

K. OBJECTIONS TO WITNESS'S QUALIFICATIONS

PEF's depreciation study is designated as an exhibit to the direct testimony of PEF witnesses Bazemore and Portuondo. To the extent these witnesses purport to offer opinion testimony related to the study and related topics, such as appropriate depreciation rates, OPC intends to object.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished electronically and via U.S. Mail this 3rd day of August, 2005 to all counsel of record as indicated below.

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