ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 050078-EI

PROGRESS ENERGY FLORIDA'S PRE-HEARING STATEMENT

Progress Energy Florida, Inc. ("Progress Energy", "PEF", or the "Company"), pursuant to Order No. PSC-05-0487-PCO-EI, hereby submits its Prehearing Statement in this matter, and states as follows:

A. APPEARANCES

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CTR ___
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RCA ___
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SGA ___
SEC 1
OTH ___

B. WITNESSES AND EXHIBITS

PEF reserves the right to call such other witnesses and to use such other exhibits as may be identified in the course of discovery and preparation for the final hearing in this matter.

1. WITNESSES.

Direct Testimony.

Witness	Subject Matter
H. William Habermeyer, Jr.	Cost savings and improvements achieved since the merger; continued improvements to customer service, reliability and power generation; overall revenue request.
E. Michael Williams	PEF's forecasted capital and O&M expenses for power plant operations; commitment to increasing generation supply by bringing new units into service; low production costs for PEF's generating units; completion of Hines 2 and 3 generating units; sponsor of the Company's 2005 Fossil Dismantlement Study.
Dale E. Young	Crystal River Unit 3's (CR3's) efficient and reliable performance; PEF's efforts to continue CR3's excellence into the future; sponsor of PEF's CR3 Nuclear Decommissioning Study.
Dale D. Williams	The Company's fuel price forecast; established fuel inventory target levels.
Jeff Lyash	Operational improvements in energy delivery as a result of the merger; PEF's commitment to excellence program; PEF's high quality service at reasonable costs.
Dale Oliver, P.E.	PEF's Commitment to Excellence program; the effect this program has had on reliability, customer service, prices, and employee satisfaction.
Ray F. DeSouza	The reasonableness of the transmission portion

	of PEF's Capital and O&M expenses; increase in test year transmission reliability program funding.
David McDonald	The reasonableness of the Company's distribution portion of PEF's O&M and Capital expenses; PEF's reliability improvements; increase in test year distribution reliability program funding.
Willette Morman Perry	Customer service strategy and expenses.
Robert Bazemore	The reasonableness of the administrative and general portion of the Company's O&M expenses; co-sponsor of PEF's 2005 Depreciation Study.
John B. Crisp	PEF's load forecast, including the Company's individual projections of customers, energy sales, and coincident peak demand.
Mark A. Myers	PEF's budgeting and financial forecasting process; procedures used by the Company to monitor and control its O&M and Capital budgets; key assumptions and components of the Company's 2005 and 2006 budgets.
Thomas R. Sullivan	The capital structure of PEF; the impact long term purchase power contracts have on the financial policy; PEF's target credit rating.
Javier Portuondo	The development of PEF's Minimum Filing Requirements ("MFRs"); significant accounting changes since the Company's last base rate proceeding; PEF's requested storm accrual; ratemaking adjustments made to the per books net operating income, rate base, and capital structure; conformance with Commission-approved regulatory practices and policies; overall revenue requirements; and revenue requirements.
James H. Vander Weide, Ph.D.	PEF's cost of capital, cost of equity, and rate of return.
Charles J. Cicchetti, Ph.D	PEF's rate of return on equity performance

	adjustment.
William C. Slusser, Jr.	The jurisdictional separation study for the projected 2006 test period; use of the 12 CP and 25% AD method to allocate production capacity costs; the Company's proposed tariff schedules of rates and charges; the Company's total retail revenue requirements.

Rebuttal Testimony.

Witness	Subject Matter
Robert Bazemore	PEF's theoretical depreciation reserve; the reasonableness of the administrative and general portion of the Company's O&M costs, addressing the arguments of the intervenors related to the Company's A&G O&M.
Charles J. Cicchetti, Ph.D	PEF's superior performance in providing electric service to its customers; the reasonableness of PEF's requested ROE, including the bases for an upward adjustment to PEF's ROE; capital structure; and CWIP.
John B. Crisp	PEF's generation fleet; the development and results of PEF's revised load forecast.
Ray F. DeSouza	The reasonableness of PEF's proposed test year transmission O&M and Capital expenses; the reasonableness and efficacy of PEF's transmission pole inspection program; PEF's cost of removal of transmission equipment and salvage value, if any, of such equipment.
Steven P. Harris	The appropriateness of PEF's proposed annual accrual for the storm reserve.
Jeff Lyash	The reasonableness of the Company's test year distribution and transmission O&M and Capital expenses.
Robert B. Matthews	PEF's cost of removal of distribution equipment and salvage value, if any, of such equipment.

David E. McDonald	The reasonableness of PEF's proposed test year distribution O&M and capital expenditures; the reasonableness and efficacy of PEF's vegetation management and pole inspection programs; PEF's superior distribution performance. PEF's cost of removal of distribution equipment and salvage value, if any, of such equipment.
Dale Oliver, P.E.	The reasonableness of the Company's transmission and distribution spending during 2002-2004 as compared to the amount initially proposed by the Company prior to the settlement in Docket No. 000824-EI.
Javier Portuondo	The reasonableness of PEF's revenue requirements request, including but not limited to all issues related to rate base, NOI, depreciation, capital structure, working capital, and cost recovery clauses raised by the intervenors.
Earl Robinson	The reasonableness of PEF's 2005 Depreciation Study with respect to the theoretical reserve variance and the transmission and distribution net salvage parameters, and any other depreciation issues raised by the intervenors.
William C. Slusser, Jr.	The reasonableness of PEF's jurisdictional separation study for the projected 2006 test period; use of the 12 CP and 25% AD method to allocate production capacity costs; the Company's proposed tariff schedules of rates and charges; the Company's total retail revenue requirements.
Thomas R. Sullivan	The financial impact of power purchase agreements on PEF's capital structure; why it is unreasonable to apply Progress Energy, Inc.'s consolidated capital structure to PEF.
James H. Vander Weide, Ph.D.	The proper calculation of PEF's cost of capital and cost of equity.

2. EXHIBITS

Exhibit Number	Witness	Description
HWH-1	H. William Habermeyer, Jr.	Current resume.
HWH-2	H. William Habermeyer, Jr.	Comparison of PEF price with other consumer goods and services.
EMW-1	E. Michael Williams	A list of the minimum filing requirements (MFR's) schedules sponsored or co-sponsored by Mr. Williams.
EMW-2	E. Michael Williams	Graph: Power Plant Performance-Florida steam equivalent forced outage rate, equivalent availability, and Florida simple cycle CT starting reliability.
EMW-3	E. Michael Williams	PEF's 2005 Fossil Plant Dismantlement Study.
DEY-1	Dale E. Young	A list of the minimum filing requirements (MFR's) schedules sponsored or co-sponsored by Mr. Young.
DEY-2	Dale E. Young	Non-fuel O&M two year average cost.
DEY-3	Dale E. Young	CR3 net generation.
DEY-4	Dale E. Young	PEF's 2005 Nuclear Decommissioning Study.
DEY-5	Dale E. Young	U.S. Nuclear Regulatory Commission's 2005 annual assessment letter.
DDW-1	Dale D. Williams	A list of the minimum filing requirements (MFR's) schedules sponsored or co-sponsored by Mr.

		Williams.
DDW-2	Dale D. Williams	The company's fuel price forecast.
DDW-3	Dale D. Williams	The company's fuel inventories.
DDW-4	Dale D. Williams	A comparison of the company's fuel inventory levels against Florida Public Service Commission ("The Commission").
D0-1	Dale Oliver	A summary of CTE spending that shows spending for distribution, transmission, fleet and facilities programs, which represent substantially all of our incremental CTE funding.
RFD-1	Ray F. DeSouza	A list of the Minimum Filing Requirements (MFRs) sponsored or co-sponsored by Mr. DeSouza.
RFD-2	Ray F. DeSouza	Transmission Florida Reliability Graphs.
RFD-3	Ray F. DeSouza	Transmission Florida Accelerated & Proactive Reliability Initiatives.
DM-1	David McDonald	A list of the Minimum Filing Requirements (MFRs) sponsored or co-sponsored by Mr. McDonald.
RHB-1	Robert H. Bazemore	A list of the minimum filing requirements (MFR's) schedules sponsored or co-sponsored by Mr. Bazemore.
RHB-2	Robert H. Bazemore	The SEC order approving the service company's organizational structure and cost allocation methodologies, dated November 27, 2000.

RHB-3	Robert H. Bazemore	The service company's cost allocation manual.
RHB-4	Robert H. Bazemore	The May 8, 2003 SEC audit letter.
RHB-5	Robert H. Bazemore	The service company's organizational chart.
RHB-6	Robert H. Bazemore	The actuarial study supporting the pension credit.
RHB-7	Robert H. Bazemore	The AUS consultants' 2005 depreciation study.
JBC-1	John B. Crisp	A list of the Minimum Filing Requirements (MFRs) sponsored or co-sponsored by Mr. Crisp.
JBC-2	John B. Crisp	Customer, Energy Sales & Seasonal Demand Forecast.
JBC-3	John B. Crisp	Forecast Process Flow Chart.
JBC-4	John B. Crisp	PEF Short Term Forecast Performance Review.
JBC-5	John B. Crisp	PEF Energy and Customer Forecasting Models.
JBC-6	John B. Crisp	PEF Historical Forecast Accuracy.
JBC-7	John B. Crisp	U.S. & Florida Economic Assumptions – 2002 – 2006.
JBC-8	John B. Crisp	PEF Historic and Projected Growth Rates.
MAM-1	Mark A. Myers	A list of the Minimum Filing Requirements (MFRs) sponsored or co-sponsored by Mr. Meyers.
MAM-2	Mark A. Myers	2005 and 2006 Key Budget Assumptions.
TRS-1	Thomas R. Sullivan	Credit implications of power supply risk, Moody's special comment July

		2000.
TRS-2	Thomas R. Sullivan	Standard & Poor's research " Buy versus Build": Debt Aspects of Purchased-Power Agreements May 8, 2003.
TRS-3	Thomas R. Sullivan	Fitch presentation to Progress Energy, October 2003.
JP-1	Javier Portuondo	A list of the Minimum Filing Requirements (MFRs) sponsored or co-sponsored by Mr. Portuondo.
JP-2	Javier Portuondo	Summary table of the Company's 2006 test year results.
JP-3	Javier Portuondo	Revised methodology for allocating costs of Outage and Emergency ("O&E") activities between Operation and Maintenance ("O&M") and capital accounts.
JP-4	Javier Portuondo	Detailed calculation of the adjustment for depreciation expense.
JP-5	Javier Portuondo	Analysis of O&M expenses compared to the Commission O&M benchmark policy.
JP-6	Javier Portuondo	Schedule of post 9/11 security costs to be moved to base rates.
JP-7	Javier Portuondo	Schedule of the net cost savings from the Company's reorganization initiative.
JP-8	Javier Portuondo	Schedule of adjustments to annualize net test year benefits of the mobile meter reading program.
JP-9	Javier Portuondo	Company's updated hurricane risk assessment study.
JP-10	Javier Portuondo	Schedule of the types of costs charged to the Storm reserve.

JP-11	Javier Portuondo	Reconciliation of test year capital and rate base.
JVW-1	James H. Vander Weide, Ph.D	Summary of discounted cash flow analysis for electric energy companies.
JVW-2	James H. Vander Weide, Ph.D	Summary of discounted cash flow analysis for natural gas companies.
JVW-3	James H. Vander Weide, Ph.D	Comparison of the DCF expected return on an investment in electric companies to the interest rate on Moody's A-Rated utility bonds.
JVW-4	James H. Vander Weide, Ph.D	Comparison of the DCF expected return on an investment in natural gas companies to the interest rate on Moody's A-Rated utility bonds.
JVW-5	James H. Vander Weide, Ph.D	Comparative returns on S&P 500 stock index and Moody's A-Rated bonds 1937-2003.
JVW-6	James H. Vander Weide, Ph.D	Comparative returns on S&P utility stock index and Moody's A-Rated bonds 1937-2003.
JVW-7	James H. Vander Weide, Ph.D	Using the arithmetic mean to estimate the cost of equity capital.
JVW-8	James H. Vander Weide, Ph.D	Calculation of capital asset pricing model cost of equity using Ibbotson Associates' 7.2 risk premium.
JVW-9	James H. Vander Weide, Ph.D	Calculation of capital asset pricing model cost of equity using DCF estimate of the expected rate of return on the market portfolio.

JVW-10	James H. Vander Weide, Ph.D	Derivation of the quarterly DCF model.
JVW-11	James H. Vander Weide, Ph.D	Adjusting for flotation costs in determining a public utility's allowance rate of return on equity.
JVW-12	James H. Vander Weide, Ph.D	Ex ante risk premium method.
JVW-13	James H. Vander Weide, Ph.D	Ex post risk premium method.
CJC-1	Charles J. Cicchetti	A complete listing of Dr. Cicchetti's publications Re: articles on energy and environmental issues, public utility regulation, competition and antitrust, and a list of the proceedings in which Dr. Cicchetti has provided expert testimony since 1980.
WCS-1	William C. Slusser	A list of the Minimum Filing Requirements (MFRs) sponsored or co-sponsored by Mr. Slusser.
WCS-2	William C. Slusser	Summary development of functional unit costs with proposed revenue credits.
WCS-3	William C. Slusser	Estimate of alternative resource investment required to serve peak demand only.
WCS-4	William C. Slusser	Comparison of class allocated cost of service study results.
WCS-5	William C. Slusser	Development of target revenue increase by rate class.
WCS-6	William C. Slusser	Summary of proposed rates and class rates of return.

Rebuttal Exhibits

JL-1	Jeffrey Lash	O&M Benchmark Analysis.
JBC-9	John B. Crisp	Revised Minimum Filing Requirement Schedules F-7 Forecasting Models – Historical Data And F-8 Assumptions.
JBC-10	John B. Crisp	Revised Energy Sales - Customers - Coincident Demand Forecast.
JBC-11	John B. Crisp	PEF Forecast Variance Review.
JBC-12	John B. Crisp	Forecast Comparison – Original vs. Revised.
JBC-13	John B. Crisp	2003 Presentation to the Florida Public Service Commission Regarding Impact of Gas Prices on New Coal Capacity.
RHB-8	Robert H. Bazemore	PEF's revised response to OPC Interrogatory No. 26
RHB-9	Robert H. Bazemore	PEF's revised response to Florida Retail Federation Interrogatory No. 17
RHB-10	Robert H. Bazemore	PEF's Health Care Cost Adjustment Schedule
EMR-1	Earl M. Robinson	Chart of relationship between Company's cost of removal and average age of retirement for FERC Account 364.
EMR-2	Earl M. Robinson	Schedule of Company's depreciation analyses in 1997, 2002, and 2005.
EMR-3	Earl M. Robinson	Schedule of Florida Power & Light ("FPL"), Gulf Power Company ("Gulf") and PEF net salvage parameters.
EMR-4	Earl M. Robinson	Excerpts from the Public Utility Depreciation Practices, Staff

		Subcommittee on Depreciation of the NARUC Finance and Technology Committee of the National Association of Regulatory Utility Commissioners, August 1996.
JVW-14	James H. Vander Weide, Ph.D.	Current Value Line Betas for Proxy Electric Companies.
JVW-15	James H. Vander Weide, Ph.D.	Companies with negative earned rates of return on equity and market-to-book ratios greater than 1.0.
JVW-16	James H. Vander Weide, Ph.D.	Companies with earned returns on equity in the range of 0 to 6% and market-to-book ratios exceeding 1.0.
SPH-1	Steven P. Harris	PEF Simulated and Actual Aggregate Annual Historical Hurricane Damage.
SPH-2	Steven P. Harris	Numbers of Historical Hurricanes Affecting current PEF Service Territory by Decade and by Maximum SSI Wind Speed in PEF Service Territory.
SPH-3a	Steven P. Harris	Landfall Milepost Map
SPH-3b	Steven P. Harris	Comparison of Protection Afforded by 450m and $15m Annual Accrual Against Potential T&D Storms Damage From a Single SSI 1 Landfall at Milepost.
SPH-3c	Steven P. Harris	Comparison of Protection Afforded by 450m and $15m Annual Accrual Against Potential T&D Storms Damage From a Single SSI 3 Landfall at Milepost.
SPH-3d	Steven P. Harris	Comparison of Protection Afforded by 450m and $15m Annual Accrual Against Potential T&D Storms Damage From a Single SSI 4 Landfall at Milepost.
SPH-4	Steven P. Harris	Storm Reserve Fund Analysis Case Results – Five Year Recovery of Negative Balances.

MFR schedules

A-1	Javier Portuondo, William C. Slusser	Full Review Requirements Increase Requested.
A-2	Javier Portuondo, William C. Slusser	Full Review Requirements Bill Comparison – Typical Monthly Bills.
A-3	Javier Portuondo, William C. Slusser	Summary of Tariffs.
A-4	Javier Portuondo	Interim Revenue Requirements Increase Requested.
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B-2	Javier Portuondo, William C. Slusser	Rate Base Adjustments.
B-3	Javier Portuondo	13 Month Average Balance Sheet – System Basis.
B-4	Javier Portuondo	Two Year Historical Balance Sheet.
B-5	Javier Portuondo	Detail of Changes in Rate Base.
B-6	Javier Portuondo, William C. Slusser	Jurisdictional Separation Factors – Rate Base.
B-7	Robert H. Bazemore, Ray F. DeSouza, David McDonald, Javier Portuondo, E. Michael Williams. Dale E. Young	Plant Balances by Account and Sub-Account.
B-8	Robert H. Bazemore, Ray F. DeSouza, David McDonald, Javier Portuondo, E. Michael Williams. Dale E. Young	Monthly Plant Balances Test Year – 13 Months.
B-9	Robert H. Bazemore, Ray F. DeSouza, David McDonald, Javier Portuondo, E. Michael Williams. Dale E. Young	Depreciation Reserve Balances by Account and Sub-Account.
B-10	Robert H. Bazemore, Ray F. DeSouza, David McDonald, Javier Portuondo, E. Michael Williams.	Monthly Reserve Balances Test Year – 13 Months.

	Dale E. Young	
B-11	Robert H. Bazemore, Javier Portuondo	Capital Additions and Retirements.
B-12	Robert H. Bazemore, Javier Portuondo	Net Production Plant Additions.
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B-14	Javier Portuondo	Earnings Test.
B-15	Ray F. DeSouza, David McDonald, Javier Portuondo, William C. Slusser. E. Michael Williams, Dale E. Young	Property Held for Future Use – 13 Month Average.
B-16	Javier Portuondo	Nuclear Fuel Balances.
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C-4	Javier Portuondo, William C. Slusser	Jurisdictional Separation Factors – Net Operating Income.
C-5	Javier Portuondo, William C. Slusser	Operating Revenues.
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C-9	Robert H. Bazemore, Ray F. DeSouza, David McDonald, Javier Portuondo, E. Michael Williams. Dale E. Young	Five Year Analysis – Change in Cost.
C-10	Javier Portuondo	Detail of Rate Case Expenses for Outside Consultants.
C-11	Willette Morman Perry, Javier Portuondo	Uncollectible Accounts.
C-12	Robert H. Bazemore, Javier Portuondo	Administrative Expenses.
C-13	Robert H. Bazemore, Javier	Miscellaneous General Expenses.

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C-14	Robert H. Bazemore, Javier Portuondo, William C. Slusser	Advertising Expenses.
C-15	Robert H. Bazemore, Ray F. DeSouza, David McDonald, Javier Portuondo, William C. Slusser, E. Michael Williams, Dale E. Young	Industry Association Dues.
C-16	Robert H. Bazemore, Ray F. DeSouza, David McDonald, Javier Portuondo, E. Michael Williams, Dale E. Young	Outside Professional Services.
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D-9	Javier Portuondo	Financial Indicators – Summary.

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E-2	William C. Slusser	Explanation of Variations From Cost of Service Study Approved in Company's Last Rate Case.
E-3a	William C. Slusser	Cost of Service Study – Allocation of Rate Base Components to Rate Schedule.
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E-4a	William C. Slusser	Cost of Service Study – Functionalization and Classification of Rate Base.
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E-5	William C. Slusser	Source and Amount of Revenues – at Present and Proposed Rates.
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E-7	William C. Slusser	Development of Service Charges.
E-8	William C. Slusser	Company – Proposed Allocation of the Rate Increase by Rate Class.
E-9	William C. Slusser	Cost of Service – Load Data.
E-10	William C. Slusser	Cost of Service Study – Development of Allocation Factors.
E-11	William C. Slusser	Development of Coincident and Noncoincident Demands for Cost Study.

E-12	William C. Slusser	Adjustment to Test Year Revenue.
E-13a	William C. Slusser	Revenue from Sale of Electricity by Rate Schedule.
E-13b	William C. Slusser	Revenues by Rate Schedule – Service Charges (Account 451).
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E-14	William C. Slusser	Proposed Tariff Sheets and Support for Charges.
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F-4	Dale E. Young	NRC Safety Citations.
F-5	John B. Crisp, Mark A. Myers	Forecasting Models.
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F-7	John B. Crisp, Mark A. Myers	Forecasting Models – Historical Data.
F-8	John B. Crisp, Mark A. Myers	Assumptions.
F-9	H. William Habermeyer, Jr.	Public Notice.

D. PEF'S STATEMENT OF BASIC POSITION

The following table illustrates PEF's basic position regarding the jurisdictional revenue increase that will be demonstrated by the evidence. (Recoverable fuel and conservation revenues and expenses are excluded.)

Line No.	Description	Source	Amount
1	Jurisdictional Adjusted Rate Base	Schedule B-1	4,545,891
2	Rate of Return on Rate Base Requested	Schedule D-1a	9.493%
3	Jurisdictional Net Operating Income requested	Line 1 x Line 2	431,529
4	Jurisdictional Adjusted Net Operating Income	Schedule C-1	303,400
5	Net Operating Income Deficiency (Excess)	Line 3 – Line 4	128,128
6	Earned Rate of Return	Line 4/Line 1	6.67%
7	Net Operating Income Multiplier	Schedule C-44	1.6320
8	Total Revenue Deficiency Calculated	Line 5 x Line 7	209,105

E. PEF'S STATEMENT OF FACTUAL ISSUES AND POSITIONS

On April 29, 2005, pursuant to Chapter 366, Florida Statues, PEF petitioned the Commission for approval of a permanent increase in rates and charges sufficient to generate additional total annual base revenues of approximately $206 million for electric service provided to customers beginning January 1, 2006. The requested increase will provide PEF with a reasonable opportunity to earn a fair rate of return on the Company's investment in property used and useful in serving the public, including a 12.8% rate of return on the Company's common equity capital. Based on adjustments since its initial filing, including a recently updated sales forecast, PEF seeks an approximate $209 increase in annual base revenues.

PEF has not sought an increase in base rates in more than twelve years. In fact, the Company lowered its base rates by more than 9% in 2002, which saved customers more than a half billion dollars. PEF's current base rates are at a level that last existed in 1983. PEF has accomplished this despite adding more than 687,080 customers and experiencing growth in demand for reliable electricity by more than 5,594 megawatts. In sharp contrast to PEF's base rates, the Consumer Price Index ("CPI") has increased by 95% since 1983. Faced with such inflationary cost pressures, and the need to continue to meet customer expectations for more reliable power, it was necessary for the Company to seek an increase in its base rates to provide its customers with the level of electric service they demand and deserve.

In addition to its request for an increase in base rates, PEF has requested approval of certain changes to the terms of existing rate schedules, the withdrawal of certain non-cost-effective interruptible and curtailable rate schedules closed to new customers since 1996, changes in existing service charges, and other related adjustments. PEF further submitted its updated Depreciation, Nuclear Decommissioning, and Fossil Plant Dismantlement Cost Studies for approval by the Commission in accordance with Commission rules.

PEF last raised base rates in 1993. The Company also substantially reduced its base rates under the Stipulation and Settlement approved by the Commission in Order No. PSC-02-0655-AS-EI (the "Stipulation") in 2002. As a result, the Company's current residential base rate for 1,000 kwh is at a level that last existed twenty-two years ago, in 1983. Despite relatively stable or reduced base rates, the Company has nonetheless continued to invest in its generation, transmission, and distribution systems. During the twelve years following the Company's last rate increase in 1993, the Company added more than 2,300 megawatts of new generating capacity and invested in additional infrastructure needed to serve over 350,000 new retail customers, nearly a third more than the number of customers the Company served in 1993. The Company has spent and will spend more than $882 million in new power plants, including the most recently added highly efficient, cost-effective Hines 2 combined-cycle plant, and the similar Hines 3 combined-cycle power plant, which will be added to the system in 2005. In addition, since the Stipulation in 2002, the Company has invested approximately $123 million over and above normal expenditures to upgrade its transmission and distribution systems. As explained in the testimony and exhibits of the Company's witnesses, the result of these investments has been significant improvements in power resources and reserve margins, system reliability, and customer satisfaction for PEF's customers. At the same time the Company's customers have realized more than half a billion dollars in direct savings due to the Company's base rate reduction and revenue sharing under the Stipulation.

Under the Stipulation, PEF's current base rates remain in effect until December 31, 2005. The Company agreed it would not seek an increase in base rates that would take effect prior to January 1, 2006. PEF's Petition is consistent with its Stipulation.

PEF selects the period January 1, 2006 through December 31, 2006 as the test year for calculating the revenue deficiency in this case. A calendar year 2006 test year has been selected because it will best fulfill the purpose of a test year, which is to set rates based on costs and revenues that are representative of the period when the new rates will be in effect.

The details of the rate base, operation and maintenance expenses, and other factors driving the need for rate relief are more fully reflected in the testimony and exhibits of PEF's witnesses and the Minimum Filing Requirements ("MFRs") and schedules filed with PEF's petition.

As explained fully by the Company's witnesses, PEF's plan is to maintain and improve upon the high quality of operational performance in power production and the high quality of service and reliability in power transmission and distribution the Company has achieved over the past three years. The high levels of customer satisfaction with the Company's electric service achieved over the same time period confirm that customers want the quality service the Company currently provides. The Company, however, cannot continue to provide high quality electric service at its current base rates. In an era of increasing costs, increasing customer growth, and increasing customer demand for reliable power, an increase in rates is necessary to continue to provide the reliable production, transmission, and distribution of power, and the quality of service to customers that PEF has achieved and its customers have come to expect.

For example, the Company will soon make additions to rate base in the amount of approximately $500 million for its Hines 2 and Hines 3 combined-cycle generating units. Hines 2 will move fully into rate base when partial fuel clause cost recovery up to the level of fuel savings under the Stipulation expires in December 2005. Hines 3 is on schedule for an in-service date in December 2005 and, thus, will be added to the Company's rate base at that time. Additionally, the Company has added further to rate base through investments of approximately $1.3 billion to achieve operational improvements in its nuclear, fossil steam, combined-cycle, and combustion turbine power plants since 2001. As a result, the Crystal River nuclear plant has realized the highest level of performance in its history and, in fact, has one of the highest capacity factors in the nation, while the rest of PEF's generation fleet has achieved record levels of equivalent availability and low forced outage rates. The reliability benefits and fuel cost savings from these investments are already being received by PEF's retail customers. To ensure that the high degree of availability and reliability of its existing fleet and the resulting flow of benefits to its customers are maintained, PEF will invest an additional $100 million in plant improvements between 2005 and 2006.

Another ongoing cost consideration that has garnered and warrants attention in light of recent experience is the clear need to replenish PEF's Storm Damage Reserve to ensure that sufficient funds are in place and available for the consequences of future hurricanes and severe storms. The Company's system suffered unprecedented damage in 2004 from Hurricanes Charley, Frances, Jeanne, and Ivan and incurred an estimated $366 million in storm-related costs. PEF requested recovery of the retail portion of its O&M expenses for repair of storm-related damages through the establishment of a Storm Cost Recovery Clause in Docket No. 041272-EI. The retail portion of the Company's storm-related capital costs, approximately $ 62 million, however, will not be recovered through the Storm Cost Recovery Clause. Rather, these storm-related capital costs, which to this point have been absorbed by the Company, have been included in PEF's retail base rates that will be used for setting rates in this proceeding.

The enormous costs associated with the 2004 hurricanes were enough to have depleted the $46 million pre-hurricane balance in the Company's Storm Damage Reserve several times over. That balance had been produced by years of accruals to the reserve at the still-current amount of $6 million a year, which is intended to cover certain hurricane and severe storm-related costs not covered by insurance. At this current accrual level, the Storm Damage Reserve will not reach adequate levels for many years, if ever. PEF requests, therefore, as part of its

Petition that the annual base rate accrual to the Storm Damage Reserve be increased to $50 million in order to restore the reserve and provide an adequate reserve level for the costs associated with future hurricanes and severe storms.

Finally, PEF's request includes an additional return on equity component for its outstanding efforts in maintaining low base rates, providing superior customer service, and achieving greater reliability levels for its customers. The merger in 2000 contributed to PEF's improved efficiency and cost reductions and enabled the Company's base rate reductions to provide customers the benefit of over $500 million in savings. Further, the Company's Commitment to Excellence initiative over the same time period enhanced PEF's quality of service by achieving greater reliability and customer satisfaction, among other achievements. PEF therefore has demonstrated its ability to manage effectively, as shown by its superior and outstanding performance. PEF should be recognized for its efforts with an additional return on equity component adjustment to the midpoint and range of the Company's authorized return on equity. This performance adjustment is consistent with Commission policy and past practice and is an appropriate incentive to the Company for continued superior performance.

TEST YEAR AND FORECASTING

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

PEF: Yes. Twelve months ended December 31, 2006 is the appropriate test year. (Portuondo)

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

PEF: Yes, as of the time of PEF's original filing, but PEF will be filing with its rebuttal testimony updated schedules detailing the removal of the projected customers, energy, and load to be consumed by residents of the City of Winter Park, utilizing the updated forecast that PEF prepares annually in conjunction with the upcoming re-projection filing in the fuel docket, which has recently become available. (Crisp)

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

PEF: Yes, as of the time of PEF's original filing, but for the reasons described in Issue 2, PEF will be filing updated billing determinants with its rebuttal testimony. (Slusser)

QUALITY OF SERVICE

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

PEF: Yes. PEF has gone beyond the provision of adequate service, steadily improving performance in several key areas. Today, the Company provides high-quality, reliable electric service that is in the top quartile in the industry in many indices. (Lyash, Oliver, McDonald, DeSouza, Morman-Perry)

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

PEF: Yes. (Portuondo)

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

PEF: Yes. PEF has been providing reliable transmission and distribution service. However, incremental reliability initiatives as outlined in our filing will allow us to continue to provide this level of service and accelerate or go beyond existing levels of activity, to meet our customers' rising expectations and further benefiting reliability. (Oliver, McDonald, DeSouza)

ISSUE 7

(a):. Is PEF's vegetation management program sufficient for the purpose of providing reasonable transmission and distribution service?

PEF: Yes. PEF has been providing reliable transmission and distribution service utilizing its current vegetation management programs. However, incremental reliability initiatives as outlined in our filing will allow us to continue to provide this level of service and accelerate or go beyond existing levels of activity, to meet our customers' rising expectations and further benefiting reliability. (Oliver, McDonald, DeSouza)

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

PEF: Yes. PEF has been providing reliable transmission and distribution service utilizing its current vegetation management and animal and pest control programs. However, incremental reliability initiatives as outlined in our filing will allow us to continue to provide this level of service and accelerate or go beyond existing levels of activity, to meet our customers' rising expectations and further benefiting reliability. (Oliver, McDonald, DeSouza)

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?

PEF: Yes. PEF achieved a distribution reliability improvement of greater than 20% between 2000 and 2004. (McDonald).

DEPRECIATION STUDY

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

PEF: January 1, 2006. (Portuondo, Robinson, Bazemore).

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.

PEF: Yes. PEF has employed an appropriate average service life, survivor curve, and/or reserve percentage in the calculation of the Depreciation Rate. (Portuondo, Robinson, Bazemore).

(b) Has PEF employed the appropriate net salvage factor in the calculation of the depreciation rate? If not, what is the appropriate factor and what is the impact, if any, on (i) the depreciation rate and (ii) the depreciation reserve? Provide a position for each affected account.

PEF: Yes. PEF has employed the appropriate net salvage factor in the calculation of the depreciation rate (Portuondo, Robinson, Bazemore, DeSouza, McDonald, Matthews).

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?

PEF: When compared with the hypothetical reserve calculated in PEF's Depreciation Study, the book reserve shows a positive net variance. The variance should be treated consistent with the Depreciation Study filed by PEF in this docket and with well established Commission precedent and be amortized over the

composite average remaining life of the depreciable plant assets. PEF's Depreciation Study filed in this docket, including the depreciation rates contained therein, should be approved by the Commission. (Portuondo, Robinson, Bazemore).

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?

PEF: Yes. The allocation was performed in accordance with Commission Order No. PSC-02-0655-AS-EI. (Portuondo, Robinson).

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

PEF: The appropriate depreciation rates are presented on Table 1F-FERC Account –Future (Pro-forma) of the 2005 Depreciation Study filed as Exhibit No. __ (RHB-7). (Robinson, Portuondo, Bazemore).

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?

PEF: Yes. (Portuondo).

FOSSIL DISMANTLEMENT COST STUDY

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

PEF: Yes, in accordance with PEF's 2005 Fossil Dismantlement Study. (Williams, Portuondo).

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

PEF: Yes, to cover projected reserve deficits and in accordance with PEF's 2005 Fossil Dismantlement Study. (Williams, Portuondo).

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

PEF: PEF's 2005 Fossil Plant Dismantlement Study shows PEF will need to accrue $9,651,668 annually beginning in 2006 in order to ensure that sufficient funds will be available to cover the costs of dismantlement of the Company's fossil plant generating sites. (Williams, Portuondo).

NUCLEAR DECOMMISSIONING COST STUDY

ISSUE 18:

(a): What is the appropriate annual accrual amount for nuclear decommissioning?

PEF: The appropriate amount is $0. (Young, Portuondo).

(b): Should the currently approved annual nuclear decommissioning accruals for PEF be revised?

PEF: No. In accordance with PEF's 2005 Nuclear Decommissioning Study filed in this docket, the annual accrual amount should remain at $0, which is consistent with the 2002 stipulation. (Young, Portuondo)

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

PEF: Yes. Due to the nature and timing of the estimated future stream of costs, a contingency is already included in the updated decommissioning cost analysis study. (See pages 63-65 of the Decommissioning Study filed by PEF in April 2005.). (Young, Portuondo)

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?

PEF: Yes, consistent with the 2005 Nuclear Decommissioning Funding Study filed in this docket. (Young, Portuondo)

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

PEF: The Nuclear Decommissioning Trust Fund is adequately funded at this time, and no adjustments can or should be made to the amount of funds in the Nuclear Decommissioning Trust Fund. (Young, Portuondo)

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

PEF: No adjustment in the annual accrual for nuclear decommissioning is required. PEF recommends replacing the 2002 stipulation as the basis for the annual accrual of $0 with the Nuclear Decommissioning Study filed in this docket and effective January 1, 2006. (Young, Portuondo)

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

PEF: The appropriate disposition is to have the balance remain as-is. The current decommissioning fund balance is estimated to be sufficient to cover the cost to decommission CR3 in 2036. (Young, Portuondo)

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

PEF: Yes. (Young, Portuondo)

RATE BASE

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

PEF: Yes. (Portuondo)

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

PEF: This account has been removed from Rate Base since it is not related to the retail jurisdiction. (Portuondo)

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?

PEF: PEF objects to the inclusion of this issue because it is irrelevant to this proceeding, and the only relevant issue is whether the expenses and rate base that PEF has proposed in 2006 are reasonable. PEF's proposed test year capital and O&M expenses associated with the change in the Company's capitalization policy are reasonable. (Bazemore, Portuondo)

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?

PEF: PEF objects to the inclusion of this issue because it is irrelevant to this proceeding, and the only relevant issue is whether the expenses and rate base that PEF has proposed in 2006 are reasonable. PEF's proposed test year capital and O&M expenses associated with the change in the Company's capitalization policy are reasonable. In any event, however, no modifications to past PEF financial statements are required or necessary. (Bazemore, Portuondo)

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

PEF: No adjustment should be made. (Portuondo).

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

PEF: Yes. Current estimates for the installed costs of Hines Unit 3 are consistent with Order No. PSC-03-0175-FOF-EI. (Williams, Portuondo, Crisp).

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?

PEF: Yes, retail rate base needs to be decreased by $37,665.000 to reflect the entire impact of the sale of the electric distribution system to the City of Winter Park. (Portuondo)

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

PEF: No. (Portuondo, Bazemore).

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

PEF: No. Capitalized items should remain in the Environmental Cost Recovery Clause due to the volatility and uncertainty associated with the spending levels of these projects. (Portuondo)

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

PEF: Since the Rate Case only includes the EPIS impact of the storm docket, the only adjustment necessary is the increase of 14,062,000 ($16,763,000 system) to rate base ordered by the Commission. (Portuondo)

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

PEF: Retail rate base should be increased by $55,554,000 as filed in PEF's Minimum Filing Requirements. (Portuondo,McDonald).

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.

PEF: PEF's requested level of Plant in Service in the amount of $8,293,062,000 ($9,017,247,000 system) is appropriate for the projected test year. (Portuondo).

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

PEF: Yes. (Portuondo, Bazemore, Robinson).

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.

PEF: PEF's requested level of Accumulated Depreciation and Accumulated Amortization in the amount of $3,999,199,000 ($4,372,504,000 system) is appropriate for the projected test year. (Portuondo, Bazemore, Robinson).

ISSUE 39:

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

PEF: PEF's requested level of CWIP in the amount of $81,294,000 ($98,598,000 system) is appropriate for the projected test year. (Portuondo, Cicchetti).

(b) Is PEF appropriately accruing AFUDC on CWIP for the projected test year?

PEF: Yes. (Portuondo).

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?

PEF: PEF's requested level of Plant Held for Future Use in the amount of $6,000,000,000 ($7,922,000,000 system) is appropriate for the projected test year. (Portuondo).

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

PEF: No adjustment should be made as nuclear decommissioning is not included in rate base. (Portuondo).

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

PEF: No adjustment should be made. Since the spent nuclear fuel has been fully amortized, there are no balances in rate base for spent nuclear fuel storage. (Portuondo).

ISSUE 43: Intentionally left blank.

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

PEF: Yes. (Portuondo).

ISSUE 45: Intentionally left blank.

ISSUE 46: Intentionally left blank.

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

PEF: None. The effects of recoverable job orders have already been removed from working capital in the case as filed. (Portuondo).

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

PEF: The appropriate cash balance that the Commission should include in working capital is the amount as filed. (Portuondo).

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

PEF: No adjustment should be made. (Portuondo).

ISSUE 50:

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

PEF: The amount of total unbilled revenue that should be allocated to the retail customers for the purpose of computing allowable working capital is $57,927,861. (Portuondo).

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

PEF: Yes. PEF's method to calculate the increase in unbilled revenues by rate class, which relies on historical relationships of unbilled to billed MWHs, is appropriate. (Portuondo, Slusser).

ISSUE 51:

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

PEF: None, to the extent they represent the market-to-market expense of unrealized gains and losses entered into for the benefit of customers, they have already been removed from working capital given that the asset and liabilities net to zero. (Portuondo).

(b): 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?

PEF: No adjustments should be made. (Portuondo).

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

PEF: None, PEF has agreed to remove these accounts receivable, as well as employee accounts payable. (Portuondo).

ISSUE 53:

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

PEF: No adjustment should be made. (Portuondo).

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

PEF: Yes. $2,250,000 of unamortized rate case expenses should be included in working capital. (Portuondo).

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

PEF: PEF proposes in its rebuttal testimony to remove the non-utility portion of prepaid advertising from its initial filing in this case. $2,119,000 ($2,305,000 system). (Portuondo, Bazemore).

ISSUE 55: Should an adjustment be made to prepaid pension expense?

PEF: No. (Bazemore, Portuondo).

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

PEF: No. (Portuondo).

ISSUE 57: Should adjustments be made to working capital to exclude the vacation pay accrual asset?

PEF: No. (Portuondo, Bazemore).

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

PEF: No. (Bazemore, Portuondo).

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

PEF: PEF has proposed an adjustment in the amount of $38,263,000 ($46,782,000 system) to transfer the turbines from inventory to CWIP bearing AFUDC, thereby excluding them from Rate Base. (Portuondo).

ISSUE 60: Should Other Accounts Receivable be reduced to exclude loans to employees?

PEF: PEF has proposed an adjustment in the amount of $973,000 system and $796,000 retail to remove the accounts receivable and accounts payable for employees, thereby excluding them from Rate Base. (Portuondo, Bazemore).

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

PEF: PEF has proposed an adjustment in the amount of $2,119,000 ($2,305,000 system) to exclude these prepayments. (Portuondo, Bazemore).

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

PEF: No adjustment beyond that included in the Company's MFR is necessary. (Portuondo).

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

PEF: No. (Portuondo).

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?

PEF: No. (Portuondo).

ISSUE 65:

(a): 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?

PEF: PEF's level of Account 151, Fuel Stock, in the amount of $124,359,000 ($138,356,000 system) is appropriate for the projected test year prior to adding the $25,515,000 ($28,387,000 system) adjustment to include inventory in transit previously recorded on Progress Fuels Corporation's books. (Dale Williams, Portuondo).

(b): What adjustments, if any, should be made to PEF's fuel inventories?

PEF: PEF's fuel inventories should include the adjustment reflected in PEF's filing for inventory in transit previously recorded on Progress Fuels Corporation's books of $25,515,000 ($28,387,000 system). (Dale Williams, Portuondo).

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?

PEF: No adjustment should be made beyond those already included in the Company's MFRs. (Portuondo).

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

PEF: Yes. PEF utilized the results of the hurricane risk assessment study to determine the appropriate level of the accrual. (Portuondo, Harris).

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?

PEF: Yes. (Portuondo).

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.

PEF: PEF's requested level of Working Capital Allowance in the amount of $108,102,000 ($141,571,000 system) for the projected test year, as filed in the Company's rebuttal testimony, is appropriate. (Portuondo).

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

PEF: The appropriate reserve goal is expected to be an average of $250 million. (Portuondo, Harris).

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?

PEF: PEF objects to this issue because it is redundant of Issue 90 based on the fact that the City of Winter Park is the only city that has exercised a purchase option in a franchise agreement. (Portuondo).

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.

PEF: PEF's requested level of Rate Base in the amount of $4,545,891,000 ($4,956,769,000 system) for the projected test year is appropriate.. (Portuondo).

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?

PEF: Yes. PEF has appropriately treated deferred income tax debit balance and deferred tax asset balances in its proposed capital structure. (Portuondo).

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

PEF: The appropriate amount of accumulated deferred taxes to include in jurisdictional capital structure is $303,799,000. (Portuondo).

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

PEF: The appropriate amount and cost rate of the unamortized investment tax credits on an FPSC adjusted retail basis to include in the capital structure are Post '70 Equity of $13,258,000 at 12.72% and Post '70 Debt of $7,441,000 at 5.73%. The Company's 13 month average balance properly recognizes the amortization of the investment tax credits. (Portuondo).

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

PEF: Yes. (Portuondo).

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

PEF: The appropriate cost rate for short-term debt is 4.04%. (Portuondo, Sullivan).

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

PEF: The appropriate cost rate for long-term debt for the projected test year is 5.73%. (Portuondo, Sullivan)

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?

PEF: Yes. As PEF's filing establishes, its ROE should be set at 12.8%, which reflects an upward adjustment of 50 basis points based, in part, on PEF's superior performance. (Cicchetti).

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

PEF: The appropriate cost rate for common equity is 12.8%. (Vander Weide, Cicchetti).

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?

PEF: It is inappropriate for the Commission to determine PEF's capital structure based on the capital structure of PEF's parent company, Progress Energy, Inc. (Sullivan, Cicchetti).

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

PEF: No. (Portuondo, Sullivan, Bazemore).

ISSUE 83:

(a): 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?

PEF: Yes. (Sullivan, Portuondo, Cicchetti).

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

PEF: Yes. (Sullivan, Portuondo, Cicchetti).

ISSUE 84: When determining the appropriate capital structure, should the Commission accept PEF's proposal to exclude commercial paper associated with unrecovered fuel cost?

PEF: Yes. (Portuondo).

ISSUE 85: 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?

PEF: Yes. (Portuondo).

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

PEF: The appropriate capital structure for PEF is shown below: (Portuondo, Sullivan, Cicchetti, Vander Weide).

		(A)	(B)	(C)	(D)
Line No.	Class of Capital	Jurisdictional Capital Structure	Ratio	Cost Rate	Weighted Cost Rate
1					
2	Common Equity	$2,623,162	57.70%	12.80%	7.386%
3	Preferred Stock	24,622	0.54%	4.51%	0.024%
4	Long Term Debt - Fixed	1,495,041	32.89%	5.73%	1.884%
5	Short Term Debt *	24,724	0.54%	4.04%	0.022%
6	Customer Deposits				
7	Active	99,154	2.18%	5.92%	0.129%
8	Inactive		0.00%		
9	Investment Tax Credit				
10	Post '70 Total				
11	Equity **	13,258	0.29%	12.72%	0.037%
12	Debt **	7,441	0.16%	5.73%	0.009%
13	Deferred Income Taxes	303,799	6.68%		
14	FAS 109 DIT - Net	(45,312)	-1.00%		
15					
16	Total	$4,545,891	100.00%		9.493%

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.

PEF: The appropriate weighted average cost of capital is 9.493% as calculated in Company's Minimum Filing Requirements. (Portuondo, Sullivan, Cicchetti, Vander Weide).

NET OPERATING INCOME

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

PEF: Yes, as of the time of PEF's original filing, but PEF will be filing with its rebuttal testimony updated schedules detailing the estimated revenues for sales of electricity by rate class due to the removal of the projected customers, energy, and load to be consumed by residents of the City of Winter Park, utilizing the updated forecast that PEF prepares annually in conjunction with the upcoming re-projection filing in the fuel docket, which has recently become available. (Crisp, Portuondo)

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

PEF: Yes, as of the time of PEF's original filing, but PEF will be filing with its rebuttal testimony updated schedules detailing the estimated other operating revenue due to the removal from the forecast of the projected customers, energy, and load to be consumed by residents of the City of Winter Park, as well as a new forecast cycle with more recent forecast inputs, and a more current projection of test year customers, KWH and system KW. (Portuondo, Slusser, Crisp)

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?

PEF: Yes, PEF will be filing with its rebuttal testimony updated schedules detailing the estimated net operating income due to the removal from the forecast of the projected customers, energy, and load to be consumed by residents of the City of Winter Park, as well as a new forecast cycle with more recent forecast inputs, and a more current projection of test year customers, KWH and system KW, as well as other adjustments recommended by intervenors. (Portuondo, Slusser).

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

PEF: Yes. (Portuondo).

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

PEF: Yes. (Portuondo).

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

PEF: Yes. (Portuondo).

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

PEF: Yes. (Portuondo).

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?

PEF: Yes. (Portuondo).

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?

PEF: PEF's requested level of Total Operating Revenues in the amount of $1,451,275,000 ($1,584,517,000 system) for the projected test year is appropriate. (Portuondo).

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

PEF: No adjustments should be made. (M. Williams).

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

PEF: No adjustment should be made to test year O&M related to Hines Unit 2. (M. Williams, Portuondo).

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

PEF: Yes. Current estimates for the O&M costs of Hines Unit 3 are consistent with the Need Determination Study prepared in support of Florida Power Corporation's petition for determination of need of Hines 3 Combined Cycle Unit and approved by Commission Order No. PSC-03-0175-FOF-EI. (Crisp, M. Williams, Portuondo).

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?

PEF: None, the MFRs already includes an adjustment for $1,742,000 ($1,819,000 system) to account for the fuel procurement and transportation operations from Progress Fuel Corporation to PEF as part of steam generation maintenance. (Portuondo).

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?

PEF: PEF objects to the inclusion of this issue because it is irrelevant to this proceeding, and the only relevant issue is whether the expenses and rate base that PEF has proposed in 2006 are reasonable. PEF's proposed test year capital and O&M expenses associated with the change in the Company's capitalization policy are reasonable. In any event, however, PEF's capitalization policies are reasonable and appropriate, and PEF has accurately reflected the impact of the change in its filing. No adjustments are needed. (Bazemore, Portuondo).

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?

PEF: No. PEF's projected security expenses related to the increased threat of terrorist attacks since September 11, 2001 of $2,149,000 are appropriate. Recovery of these ongoing heightened security costs through base rates should not preclude PEF from recovering, pending Commission approval, new and unforeseen heightened security costs through the Capacity Cost Recovery Clause or through a future adjustment to base rates. (Portuondo).

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?

PEF: Yes as to both questions in this issue. (Bazemore).

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

PEF: Yes. (Portuondo, Bazemore).

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

PEF: PEF has made the proper adjustment to remove the effects of vacancies on the labor complement in the MFRs as filed. (Portuondo, Myers).

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

PEF: No. PEF's budgeted temporary staff costs are appropriate for rate making purposes. (Portuondo).

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

PEF: No. (Portuondo, Bazemore).

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

PEF: No. (Portuondo, Bazemore).

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

PEF: Yes. (Bazemore, Portuondo).

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

PEF: Yes, an adjustment of $2,835,000 ($2,579,000 system) should be made to account 926 for medical insurance as presented in the Company's rebuttal testimony. (Bazemore, Portuondo).

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

PEF: Yes, as adjusted in the Company's rebuttal testimony. (Bazemore, Portuondo).

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

PEF: Yes. (Bazemore, Portuondo).

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

PEF: Yes. (Bazemore, Portuondo).

ISSUE 114:

(a): Has PEF made the appropriate adjustment to remove nonutility expenses?

PEF: Yes, as updated by the Company's rebuttal testimony. (Portuondo, Bazemore).

(b) Has PEF properly allocated expenses between regulated and nonregulated operations?

PEF: Yes. (Portuondo).

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

PEF: Yes. (Portuondo).

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

PEF: No adjustments should be made. (DeSouza).

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

PEF: No adjustment should be made to PEF's proposed level of vegetation management expenses. (DeSouza, McDonald, Oliver).

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

PEF: Progress Energy Florida's proposed street and outdoor light maintenance charges are appropriate. (Slusser, McDonald).

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

PEF: No adjustments should be made. (McDonald, Lyash).

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

PEF: An adjustment has already been made to decrease O&M expense by $13,877,000 and increase depreciation expense by $9,239,000 in the Company's filed MFRs. (Portuondo, McDonald).

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?

PEF: No adjustment should be made to account 904, Uncollectible Accounts, for the projected test year. The expense of $6,270,000 is appropriate. The appropriate factor to include in the revenue expansion factor is .001743. (Portuondo).

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

PEF: Yes. An adjustment was already made to remove image building advertising expenses from O&M on Schedule C-4 in the amount of $4.2 million on page 10 of 42. (Portuondo, Bazemore).

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

PEF: No. (Portuondo).

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

PEF: No. An adjustment was already made to remove them from the projected test year in the amount of $285,000 ($308,000 system) from O&M on Schedule C-4, page 10 of 42. (Portuondo).

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

PEF: Yes, PEF has budgeted to fund the NEI Utility Waste Management Group, and yes, an adjustment should be made to remove it. (Portuondo).

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

PEF: No. An adjustment was already made to remove them from the projected test year in the amount of $215,112 system from O&M on Schedule C-4, page 10 of 42. The $215,112 is included in the $308,000 adjustment for industry association dues. (Portuondo).

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

PEF: Yes. Charitable contributions are charged to below the line FERC account number 426. (Portuondo).

ISSUE 128:

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

PEF: No. (Bazemore, Portuondo).

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

PEF: Yes. (Portuondo).

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

PEF: Yes, a reduction of $584,000 ($639,999 system) has been made as part of the Company's rebuttal testimony. (Bazemore, Portuondo).

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

PEF: The appropriate amount of NEIL Distribution included in the test year is $2,589,757 ($2,834,700 system) and has been reflected in the Company's rebuttal testimony. (Bazemore, Portuondo).

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

PEF: The amount as filed in our MFRs for directors and officers liability insurance cost should be included in the test year. (Bazemore, Portuondo).

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

PEF: Yes. (Portuondo, Harris).

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?

PEF: Yes. PEF has included an adjustment in the projected test year of $1,500,000, based on projected cost of $3,000,000 amortized over a two year period beginning January, 2006. (Portuondo).

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?

PEF: No. Due in part to the volatility and uncertainty associated with the spending levels for existing projects, and consistent with Commission precedent, these costs are appropriately recovered through the Environmental Cost Recovery Clause. (Portuondo).

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.

PEF: : PEF's requested level of O&M Expense in the amount of $604,258,000 ($669,750,000 system) for the projected test year is appropriate. (Portuondo, M. Williams, Young, Desouza, McDonald, Bazemore, Slusser).

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?

PEF: No adjustment should be made. (Portuondo, Young).

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?

PEF: None. (Bazemore, Portuondo).

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?

PEF: None. (Portuondo).

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.

PEF: None. (Portuondo, Robinson, Bazemore).

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

PEF: No. (Portuondo).

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

PEF: Yes. (Portuondo).

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

PEF: PEF's requested level of Taxes Other Than Income in the amount of $111,181,000 ($120,973,000 system) for the projected test year is appropriate. (Portuondo).

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?

PEF: No Parent Debt Adjustment should be made. (Portuondo, Sullivan, Cicchetti).

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?

PEF: Yes. (Portuondo).

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

PEF: No, taxes should be calculated on a stand-alone basis which is consistent with Commission precedent. (Portuondo).

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?

PEF: PEF's requested level of Income Tax Expense in the amount of $202,888,000 ($220,172,000 system) for the projected test year is appropriate. (Portuondo, Slusser).

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.

PEF: PEF's requested level of Total Operating Expense in the amount of $1,147,875,000 ($1,254,986,000 system) for the projected test year is appropriate. (Portuondo, Slusser).

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.

PEF: PEF's requested level of Net Operating Income in the amount of $303,400,000 ($329,531,000 system) for the projected test year is appropriate. (Portuondo, Slusser).

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?

PEF: The appropriate projected test year revenue expansion factor is 61.2737% and the appropriate net operating income multiplier is 1.632%. (Portuondo).

(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?

PEF: Yes. (Portuondo).

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

PEF: PEF's requested level of annual operating revenue requirement is $1,451,275,000 ($1,584,517,000 system) for the projected test year. (Portuondo).

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.

PEF: Based on the results of PEF's adjustment for the sale of its Winter Park distribution system and the effects of its updated energy, demand and customer forecast, including the Winter Park adjustment, which will be submitted with PEF's rebuttal testimony, PEF's proposed increase of $209,105,000 for the projected test year is appropriate. (Portuondo).

COST OF SERVICE AND RATE DESIGN

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

PEF: Yes, as updated in the Company's rebuttal testimony. (Slusser).

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

PEF: The appropriate cost of service study is the study using the "12 CP and 25% AD" method for allocating production capacity costs. (Slusser).

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

PEF: No changes should be made to PEF's requested revenue requirements. However, if a change in revenue requirements is approved, it should be allocated using PEF's cost of service study that employs the 12 CP and 25% AD allocation methodology, updated to incorporate the Commission's final decision. (Slusser, Portuondo).

ISSUE 153: What are the appropriate demand charges?

PEF: PEF's proposed demand charges are appropriate. (Slusser).

ISSUE 154: What are the appropriate energy charges?

PEF: PEF's proposed energy charges are appropriate. (Slusser).

ISSUE 155: What are the appropriate customer charges?

PEF: PEF's proposed customer charges are appropriate. (Slusser).

ISSUE 156: What are the appropriate service charges?

PEF: PEF's proposed service charges are appropriate. (Slusser).

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

PEF: PEF's proposed lighting rate schedule charges are appropriate. (Slusser).

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

PEF: PEF's proposed premium distribution service charges are appropriate. (Slusser).

ISSUE 159: What are the appropriate delivery voltage credits?

PEF: PEF's proposed delivery voltage credits are appropriate. (Slusser).

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

PEF: PEF's proposed power factor charges and credits are appropriate. (Slusser).

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

PEF: PEF's present lump sum payment amounts are appropriate. (Slusser).

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?

PEF: PEF's proposed fixed charge rates are appropriate. (Slusser).

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

PEF: PEF's proposed charges and credits are appropriate. (Slusser).

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

PEF: PEF objects to the inclusion of the issue on the ground that it is outside the scope of this base rate proceeding. The appropriate levels of interruptible and curtailable billing credits are issues to be addressed and decided by the Commission in the Energy Conservation Cost Recovery

docket, and this subject is not properly at issue in this proceeding. In any event, however, levels that have been previously approved by the Commission are appropriate. (Portuondo, Slusser)

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?

PEF: Yes. (Slusser).

ISSUE 166: Should the Commission approve a Real Time Pricing rate schedule for PEF?

PEF: PEF objects to the inclusion of this issue as it is beyond the scope of this case and, in any event, the issue is premature in that the testimony filed in this case does not address the numerous issues and complexities associated with Real-Time Pricing and fails to provide an adequate basis for a reasoned decision. This issue should be addressed, if at all, in a rulemaking proceeding or workshop. (Portuondo, Slusser).

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

PEF: Yes. (Slusser).

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?

PEF: Yes. (Slusser).

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?

PEF: Yes. (Slusser).

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

PEF: The first billing cycle for the month of January, 2006. (Slusser , Portuondo).

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

PEF: Yes. (Slusser).

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

PEF: PEF objects to the inclusion of this issue as it is irrelevant to this case. This subject is not properly at issue in this proceeding as a factual or a legal matter. (Slusser, Portuondo)

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?

PEF: Yes. (Portuondo).

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?

PEF: Yes, based on the mechanism that is currently being used. (Portuondo).

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?

PEF: PEF objects to the inclusion of this issue in this docket because it is irrelevant and has no bearing on this base rate proceeding. This issue is better addressed, if at all, in PEF's annual fuel cost recovery docket. In any event, however, PEF should be allowed to recover incremental hedging costs in excess of its base rate amount through the Fuel and Purchased Power Cost Recovery Clause. Netting in the clause will not be necessary since the costs recovered through the clause will only be incremental costs. (Portuondo)

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

PEF: PEF objects to the inclusion of this issue in this docket because it is irrelevant and has no bearing on this base rate proceeding. The appropriate resource mix for the PEF generation fleet is contained in the PEF Ten Year Site Plan filing dated April 2005, and that Ten Year Site Plan was reviewed and deemed appropriate by the Commission in PEF's last Ten Year Site Plan Proceeding. (Crisp).

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

PEF: PEF objects to the inclusion of this issue in this docket because it is irrelevant and has no bearing on this base rate proceeding. An incentive for fuel efficiency, as well as plant availability, is already provided to PEF and other utilities through the Commission's generating performance incentive factor as a part of the annual fuel cost recovery proceeding. (Crisp).

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

PEF: PEF objects to the inclusion of this issue in this docket because it is beyond the scope of this base rate proceeding and would be more appropriately addressed, if at all, in the Ten Year Site Plan process and/or the Annual Fuel docket. (Crisp).

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

PEF: Yes. The success of the merger is evident from our $125 annual rate reduction and simultaneous improvement in a broad array of operational performance metrics, including service, reliability, nuclear and fossil performance, safety, etc. that would not have been made possible without the successful completion of the merger and realization of merger synergies. (Portuondo, Myers, Cicchetti)

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

PEF: Yes. (Portuondo).

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

PEF: PEF objects to the inclusion of this issue in this docket because it is beyond the scope of this base rate proceeding and would be more appropriately addressed, if at all, in the annual Energy Conservation Cost Recovery docket. In any event, however, yes. (Portuondo, Crisp).

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

PEF: Yes. (Bazemore).

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?

PEF: PEF objects to the inclusion of this issue, because the reference to "accounting system" is overbroad and vague, thus making it impossible to determine precisely which systems are at issue. (Portuondo, Bazemore).

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

PEF: Yes. (Same issue as Number 171). (Slusser).

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

PEF: PEF objects to the inclusion of this issue in this docket because it is beyond the scope of this base rate proceeding and would be more appropriately addressed, if at all, in the annual Fuel Cost Recovery docket. (Portuondo).

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

PEF: As determined by current Commission practice. (Slusser).

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

PEF: This issue duplicates Issue 172 and should not be included because it is irrelevant to this proceeding and this subject is not properly at issue in this proceeding as a factual or legal matter. (Portuondo, Slusser).

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?

PEF: Yes. (Portuondo).

ISSUE 189: Should this docket be closed?

PEF: Yes. (Portuondo).

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

PEF: No adjustments should be made to the Company's request. (Portuondo).

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

PEF: No. (Portuondo).

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?

PEF: No. (Portuondo).

E. LEGAL ISSUES

See Issues 12, 68, and 132.

F. POLICY ISSUES

None.

G. STIPULATED ISSUES

None.

H. PENDING MATTERS

Motion	Filing Date
Fifth Motion for Temporary Protective Order	July 6, 2005

I. PENDING REQUESTS FOR CONFIDENTIAL TREATMENT

Request or Notice of Intent to Seek Confidential Classification	Filing date
First Request for Confidential Classification	April 29, 2005
Third Request for Confidential Classification	June 17, 2005
Fourth Request for Confidential Classification	June 28, 2005
Seventh Request for Confidential Classification	July 15, 2005
Eighth Request for Confidential Classification	July 19, 2005
Ninth Request for Confidential Classification	July 20, 2005
Tenth Request for Confidential Classification	July 22, 2005
Eleventh Request for Confidential Classification	July 27, 2005
Twelfth Request for Confidential Classification	July 29, 2005
Thirteenth Request for Confidential Classification	August 2, 2005

In addition, pursuant to the Order Establishing Procedure, Order No. PSC-05-0487-PCO-EI, any party intending to utilize confidential information obtained from PEF during the course of discovery in the proceeding must notify PEF of its intention no later than 7 days prior to the beginning of the hearing. If such designations are made by any party to this proceeding, PEF will be requesting confidential treatment of such materials.

J. REQUIREMENTS OF THE PREHEARING ORDER THAT CANNOT BE MET

Because discovery is continuing in this matter, PEF must reserve the right to use witnesses and exhibits other than or different from those identified hereinabove, in order to respond to ongoing developments. In addition, because PEF has not filed its rebuttal testimony in this proceeding, the rebuttal witnesses, their testimony summaries, and their exhibits have not been finalized. Therefore, PEF reserves the right to supplement this prehearing statement with additional information once rebuttal testimony has finalized and filed. PEF also reserves the right to identify other witnesses to address the issues in this statement because some of those issues are generally stated and it is difficult for PEF to ascertain each witness that may address them.

K. OBJECTIONS TO WITNESSES' QUALIFICATIONS

At this time, PEF has no objections to a witness's qualifications as an expert. However, PEF reserves the right to challenge the qualifications of any witness at the hearing based on discovery, which has not yet closed, and on any witness voir dire conducted at the hearing.

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.

John T. Barnett LMS

Attorney

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