BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 050078-EI

Submitted for filing: August 5, 2005

**REBUTTAL TESTIMONY OF**

**JEFF LYASH**

**On behalf of PROGRESS ENERGY FLORIDA**


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## REBUTTAL TESTIMONY OF
## JEFF LYASH

### I. Introduction and Purpose

**Q. Please state your name.**

A. My name is Jeff Lyash.

**Q. Did you submit Direct Testimony in this case on April 29, 2005?**

A. Yes.

**Q. Have you reviewed the intervener testimony filed on behalf of the Florida Retail Federation ("FRF")?**

A. Yes. My review focused on the testimony of FRF witness Sheree L. Brown, and particularly on her comments related to distribution and transmission spending.

**Q. What is the purpose of your rebuttal testimony in this proceeding?**

A. The purpose of my rebuttal testimony is to respond to certain mischaracterizations made by Ms. Brown in her direct testimony regarding Progress Energy Florida, Inc.'s ("PEF's" or the "Company's") distribution and transmission spending.

**Q. Do you have any exhibits to your testimony?**

A. Yes. I have prepared or supervised the preparation of Exhibit No.____ (JL-1), an O&M benchmark analysis.

This exhibit is true and accurate.

## II. Distribution and Transmission Spending

**Q. Ms. Brown implies that PEF has engaged in a regulatory "sleight of hand" by overstating expenses in Docket No. 000824-EI (PEF's last rate case) and, in the intervening years, systematically controlling expenses below such levels to improve profits. Do you agree?**

A. Absolutely not. As I will discuss in detail, Ms. Brown's contentions are not supported, and are, in fact, belied by PEF's performance, and by the factual record in this matter. Contrary to Ms. Brown's assertions, PEF takes its responsibility to all stakeholders seriously and constantly endeavors to balance its efforts for the mutual benefit of all key stakeholder groups, including customers, employees, and investors. I am very proud of our track record in this regard. My direct testimony, along with that of Bill Habermeyer, Dale Oliver and other company witnesses, describes in detail the significant improvements that we've made for customers and employees. At a high level, we've significantly improved our customers' reliability and service across a broad range of measures. For employees, we've focused on improvements in safety, our fleet and facilities, and culture. The data we've seen shows that both groups have noticed and appreciate the improvements. We've also taken our responsibility to investors seriously and have prudently managed the Company in an effort to produce reasonable returns and continued financial strength. Progress Energy's philosophy is that all stakeholders must be well served to create a strong utility and that a strong utility, in turn, benefits all stakeholders.

**Q. Do you have any other comments on this matter?**

A. Yes. I'd like to point out that Ms.Brown refers repeatedly to spending levels proposed in Docket No. 000824-EI, and specifically, to the Company's as-filed testimony and Minimum Filing Requirements ("MFR") schedules. She conveniently ignores, however, the fact that this as-filed rate case was superseded by a Stipulation and Settlement Agreement (the "2002 Settlement") entered into by the Company and interveners and approved by the Commission. That 2002 Settlement called for an annual revenue reduction of $125 million, almost $500 million over the term of the agreement. This is significantly different than PEF's as-filed rate case, which contained a $5 million annual revenue reduction and corresponding spending levels. In addition, the 2002 Settlement provided a revenue sharing mechanism that replaced the traditional ROE range and provided the potential for earnings upside. Because of this, a comparison of the Company's actual spending versus the *as-filed rate case proposal* is not valid. Further, Ms. Brown's underlying assumption that revenue could be reduced by nearly $500 million over the term of the 2002 Settlement without any change to the *as-filed* spending levels is not reasonable. Said in simple terms, Ms. Brown's contentions are based on an "apples to oranges" comparison and are not valid.

**Q. Ms. Brown suggests that PEF has attempted to overstate its 2006 test year expenses in its filing so that the Company might inflate revenues and generate excess profits in years subsequent to this rate proceeding. Is this true?**

A. Absolutely not. Our test year expense forecasts represent our best estimate of future expense levels. Our recent reorganization and mobile meter reading ("MMR") programs, initiated prior to this rate case, make it clear that PEF does not overstate expenses in rate case proceedings with the hopes of reducing those expenses in future years as Ms. Brown suggests. Were that the case, PEF, under Ms. Brown's theory, would have been motivated to withhold the implementation of initiatives such as reorganization and mobile meter reading until after PEF's rate case was completed.

Through PEF's reorganization, we have incorporated almost $20 million of O&M savings into our test year financial forecast. The Company will incur one-time costs in 2005 to implement the reorganization and these costs will be funded by shareholders. In addition, we've built almost $14 million in O&M savings into the test year forecast via MMR. Again, if the Company were truly following Ms. Brown's described strategy of inflating test year expenses and then cutting expenses subsequent to the rate case, we would have undertaken both of these initiatives after the conclusion of this proceeding. In fact, these examples make it self-evident that we do not conduct ourselves in the manner suggested by Ms. Brown and demonstrate our commitment to build a strong utility that benefits all stakeholders.

**Q. Do you have any other comments regarding Ms. Brown's testimony on PEF's expense levels?**

A. Yes. I would like to add that the Commission's benchmark comparison is designed specifically to test the reasonableness of test year expenses and here, it demonstrates that our proposal is reasonable. The FERC functional categories that roughly comprise PEF's Energy Delivery organization include Transmission, Distribution, Customer Accounts, Customer Service and Information, and Sales Expenses. As shown in my Exhibit No. ____ (JL-1), projected test year expenses for these areas, in total, are $25.1 million below the benchmark when adjusted for the effect of our change in accounting for outage and emergency costs. This is the case even with the inclusion of our proposed incremental transmission and distribution reliability initiatives. This means that our actual expenses from 2002, when adjusted for customer growth and inflation, would suggest a reasonable expense level $25.1 million, or 14%, higher than we have actually submitted. Ms. Brown's analysis is flawed, among other reasons, because she is making an invalid comparison to a rate case proposal that was superseded and never adopted by interveners, the Commission, or the Company.

**Q. Does this conclude your testimony?**

A. Yes.

## O&M Benchmark Analysis

| Function | (A) Test Year Total Company Per Books | (B) O&M Adjmts | (C) Adjusted Test Year O&M | (D) Base Year Adjusted O&M | (E) Compound Multiplier | (F) Test Year Benchmark (D) x (E) | (G) Unadjusted Benchmark Variance | (H) Unadj Benchmark Variance Excluding: | (I) Adjusted Benchmark Variance | |
|---|---|---|---|---|---|---|---|---|---|---|
| Transmission | 27,647 | 9,107 | 36,754 | 31,473 | 1.1665 | 36,713 | | | 40 | Data from MFR C-37 |
| Distribution | 80,874 | 45,192 | 126,065 | 81,914 | 1.1665 | 95,552 | | | 30,513 | Data from MFR C-37 |
| Customer Accounts | 50,837 | (13,877) | 36,960 | 51,393 | 1.1665 | 59,950 | | | (22,990) | Data from MFR C-37 |
| Customer Service and Information | 4,389 | (94) | 4,295 | 3,795 | 1.1665 | 4,427 | | | (132) | Data from MFR C-37 |
| Sales Expenses | 3,674 | (29) | 3,645 | 5,261 | 1.1665 | 6,136 | | | (2,491) | Data from MFR C-37 |
| Subtotal | 167,421 | 40,298 | 207,719 | 173,835 | | 202,779 | - | - | 4,941 | |
| Reverse effect of Accounting Change | | (30,014) | (30,014) | | | | | | (30,014) | Data from MFR C-38 |
| Adjusted total | 167,421 | 10,284 | 177,705 | 173,835 | | 202,779 | - | - | (25,073) | |
| Percent of Adjusted Test Year O&M | | | | | | | | | -14% | |