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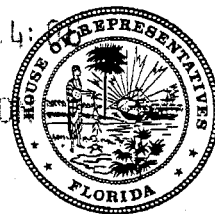
TOM LEE
President

RECEIVED-FPSC ALLAN BENSE
Speaker



STATE OF FLORIDA
OFFICE OF PUBLIC COUNSEL

06 OCT 19 PM 4:



COMMISSION
CLERK

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Joseph A. McGlothlin
Associate Public Counsel

October 19, 2006

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

Re: Docket no. 060658-EI

Dear Ms. Bayo:

I enclose for filing and appropriate distribution the original and 15 copies of the testimony of Patricia Merchant in the above docket.

In her testimony, Ms. Merchant calculates the interest that should be added to a refund of excessive fuel charges calculated by OPC witness Robert Sansom and supported by his testimony. After Ms. Merchant completed her testimony, Mr. Sansom changed his calculation slightly. To adhere to the time frames to which we and PEF agreed, I am filing her testimony in its present form today. Ms. Merchant will update her calculation and submit amended testimony in the near future.

- CMP _____
- COM 5 _____
- CTR Org _____
- ECR () _____
- GCL 1 _____
- OPC _____
- RCA _____
- SCR _____ JM/am
- SGA _____ Enclosures
- SEC 1 _____ cc: Parties
- OTH _____

Thank you for your assistance.

Yours truly,

Joe A. McGlothlin
Joseph A. McGlothlin
Associate Public Counsel

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FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
09645 OCT 19 06

FPSC-COMMISSION CLERK

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition on behalf of Citizens)
of the State of Florida to require)
Progress Energy Florida, Inc. to refund)
customers \$143 million)
_____)

Docket No. 060658-EI
Dated: October 19, 2006

DIRECT TESTIMONY

OF

PATRICIA W. MERCHANT, CPA

On Behalf of the Citizens of the State of Florida

Harold McLean
Public Counsel

Joseph A. McGlothlin
Associate Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street
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Attorneys for the Citizens
of the State of Florida

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION

1 Water and Sewer as an analyst in the Bureau of Accounting. From May, 1989
2 to February, 2005 I was a regulatory supervisor in the Division of Water and
3 Wastewater which evolved into the Division of Economic Regulation.

4

5 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS CASE?**

6 A. Yes. I am sponsoring two exhibits, which are attached to my testimony.
7 Exhibit PWM-1 is a summary of my regulatory experience and qualifications.
8 Exhibit PWM-2 is entitled Calculation of Interest on Excess Fuel Charges to
9 be Refunded by Progress Energy Florida.

10

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA
12 PUBLIC SERVICE COMMISSION?**

13 A. Yes, I have testified numerous times before the PSC. I also have testimony
14 filed in Docket No. 060365-EI, the Petition to recover natural gas storage
15 project costs through fuel cost recovery clause by Florida Power & Light
16 Company. I have also testified before the Division of Administrative
17 Hearings as an expert witness.

18

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

20 A. The purpose of my testimony is to calculate the interest component of the
21 refund proposed by Citizens' witness Sansom related to his calculation of
22 excess fuel costs charged to rate payers by Progress Energy Florida (PEF or
23 utility) during the period 1996 to 2005.

24

25 **Q. PLEASE EXPLAIN HOW YOU MADE YOUR INTEREST**

1 **CALCULATION ON MR. SANSOM'S RECOMMENDED REFUND**
2 **AMOUNTS.**

3 A. I took the annual amounts of excess coal costs calculated by Mr. Sansom as
4 reflected on page 52 of his testimony. For 1996, I applied the 1996 annual
5 average commercial paper rate to calculate the interest on the excess fuel
6 charges for that year. I then added that interest to the 1996 amount of excess
7 charges to reflect the 1997 beginning balance of overcharged costs. For each
8 successive year, I added the annual amount of excess fuel costs to the
9 beginning balance (the prior year's ending balance plus annual interest
10 expense) and applied the annual average commercial paper rate to that year. I
11 have reflected this calculation in Exhibit PWM-2, page 1 of 3.

12

13 **Q. WHAT INTEREST RATE DID YOU APPLY IN YOUR**
14 **CALCULATIONS?**

15 A. I used the 30-day commercial paper rate that is required to be applied to
16 refunds by Rule 25-6.109(4)(a), Florida Administrative Code. I received
17 these rates from the Commission staff, who compile the monthly 30-day
18 commercial paper rates as reported in the Wall Street Journal on the first
19 business day of each month. I then took the monthly average interest rates for
20 each year and calculated an annual average interest rate. I used an annual
21 average interest rate because I only have annual refund amounts, not monthly
22 amounts. I reflect the monthly average 30-day commercial paper interest rates
23 and my annual averages in Exhibit PWM-2, pages 2 and 3.

24

25 **Q. HOW DID YOU DETERMINE THE INTEREST RATE TO USE FOR**

1 **2006?**

2 A. I took the monthly average interest rates for January through September and
3 calculated a nine-month average interest rate. I applied this average rate the
4 beginning balance of excess fuel charges in 2006 and calculated a full year of
5 interest. When the final refund is made, this nine-month average should be
6 replaced with the actual monthly average rates for October 2006 through the
7 date of the refund.

8

9 **Q. WHAT IS THE TOTAL AMOUNT OF INTEREST THAT YOU HAVE**
10 **CALCULATED ON THE EXCESS FUEL COSTS FROM 1996 TO THE**
11 **END OF 2006?**

12 A. Based on my calculations, the total interest on the excess fuel costs is
13 \$22,333,604. The cut-off date of my calculation is December 31, 2006.
14 Adding this interest to the amount recommended by Mr. Sansom of
15 \$132,939,574, reflects a total amount of excess fuel and interest costs of
16 \$155,273,178.

17

18

19 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

20 A. Yes, it does.

DOCKET NO. 060658-EI
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail and U.S. Mail on this 19th day of October, 2006, to the following:

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Joseph A. McGlothlin
Deputy Public Counsel

**Calculation of Interest on Excess Fuel Charges
 to be Refunded by Progress Energy Florida**

Year	<u>Beginning Balance</u>	<u>Total Excess Fuel Charges</u>	<u>Annual Refund Before Interest</u>	<u>Annual Avg. Commercial Paper Rate</u>	<u>Annual Average Interest</u>	<u>Ending Balance</u>
1996	\$0	\$1,056,000	\$1,056,000	5.4625%	\$57,684	\$1,113,684
1997	\$1,113,684	\$5,617,376	\$6,731,060	5.5925%	\$376,435	\$7,107,495
1998	\$7,107,495	\$7,703,136	\$14,810,631	5.4529%	\$807,611	\$15,618,242
1999	\$15,618,242	\$8,412,664	\$24,030,906	5.0883%	\$1,222,773	\$25,253,678
2000	\$25,253,678	\$6,382,017	\$31,635,695	6.3058%	\$1,994,894	\$33,630,590
2001	\$33,630,590	\$16,820,854	\$50,451,444	3.8417%	\$1,938,176	\$52,389,620
2002	\$52,389,620	\$22,122,297	\$74,511,917	1.6896%	\$1,258,941	\$75,770,858
2003	\$75,770,858	\$15,522,381	\$91,293,239	1.1246%	\$1,026,669	\$92,319,907
2004	\$92,319,907	\$20,216,798	\$112,536,705	1.4242%	\$1,602,710	\$114,139,416
2005	\$114,139,416	\$29,086,051	\$143,225,467	3.3050%	\$4,733,602	\$147,959,068
2006	\$147,959,068	\$0	\$147,959,068	4.9433%	\$7,314,110	\$155,273,178
Totals		<u>\$132,939,574</u>			<u>\$22,333,604</u>	<u>\$155,273,178</u>

Curriculum Vitae

PATRICIA W. MERCHANT, CPA

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Professional Experience:

March, 2005 to Present

Office of Public Counsel – Senior Legislative Analyst

In my current position, I perform financial and accounting analysis and reviews, and provide testimony, as required, involving utility filings before the Florida Public Service Commission (or other jurisdictions) as an advocate for the Citizens of the State of Florida.

1981 to February, 2005 - Florida Public Service Commission

2000 to February, 2005

Public Utilities Supervisor – File and Suspend Rate Case Section, Bureau of Rate Filings, Division of Economic Regulation

In this capacity I was responsible for the supervision of 5 to 8 regulatory professionals. This section was responsible for the financial, accounting, engineering and rate review and evaluation of rate proceedings for Class A and B water and wastewater utilities, as well as electric and gas utilities regulated by the Commission. The types of cases included file and suspend rate cases, limited proceedings, overearning investigations, annual report reviews, service availability and tariff filings, rulemaking, and customer complaints. The analysts in this section reviewed utility filings, requested and reviewed Commission staff audits, and generated and analyzed discovery requests. Each analyst coordinated and prepared staff recommendations to the Commission for agenda conferences. As a supervisor, I reviewed the analytical work and edited the written documents of all analysts in this section for proper regulatory theory, grammar and accuracy. I also made presentations to customer groups at Commission staff customer meetings for the rate proceedings to which I was assigned. Staff recommendations were presented at agenda conferences with an introduction of each item, providing a response to comments raised by other parties and addressing the questions of Commissioners. The section also prepared and presented testimony, and assisted in the preparation of cross-examination questions for depositions and formal hearings. In addition to other duties, I provided training in regulatory accounting for new staff in my section as well as training on regulatory and accounting issues for other analysts at the Commission.

1989 – 2000

Regulatory Analyst Supervisor, Accounting Section, Bureau of Economic Regulation,
Division of Water and Wastewater

I supervised 5-7 regulatory accounting analysts. This section performed the same job activities as above specifically for the larger Commission regulated Class A and B water and wastewater companies.

1983 – 1989

Regulatory Analyst – Accounting Bureau, Division of Water and Wastewater

As an accounting analyst, I performed the same job activities as described above for water and wastewater companies in a non-supervisory role.

1981 – 1983

Public Utilities Auditor, Division of Auditing and Financial Analysis

As an auditor in the Tallahassee district of the Commission, I performed financial and accounting audits of electric, gas, telephone, water and wastewater utilities under the Commission's jurisdiction.

Education and Professional Licenses

1981 Bachelor of Science with a major in accounting from Florida State University

1983 Received a Certified Public Accountant license in Florida

Attachments

1 List of Cases in which Testimony was Submitted

Patricia W. Merchant
Submitted Testimony in the Following Cases:

Dockets Before the Florida Public Service Commission:

060362-EI - Petition to Recover Natural Gas Storage Project Costs through Fuel Cost Recovery Clause, by Florida Power & Light Company.

050045-EI - Petition for Rate Increase by Florida Power & Light Company.

991643-SU - Application for Increase in Wastewater Rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

971663-WS - Application of Florida Cities Water Company, Inc. for a limited proceeding to recover environmental litigation costs.

940847-WS - Application of Ortega Utility Company for increased water and wastewater rates.

911082-WS - Water and Wastewater Rule Revisions to Chapter 25-30, Florida Administrative Code.

881030-WU - Investigation of Sunshine Utilities of Central Florida rates for possible over earnings.

850151-WS - Application of Marco Island Utilities, Inc. for increased water and wastewater rates.

850031-WS - Application of Orange/Osceola Utilities, Inc. for increased water and wastewater rates in Osceola County

840047-WS - Application of Poinciana Utilities, Inc. for increased water and wastewater rates

Cases Before the Division of Administrative Hearings:

97-2485RU Aloha Utilities, Inc., and Florida Waterworks Association, Inc., Petitioners, vs. Public Service Commission, Respondents, and Citizens of the State of Florida, Office of Public Counsel, Intervenors