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November 1, 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

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06 NOV - 1 PM 4: 37
COMMISSION
CLERK

Re: Docket No. 060658-EI

Dear Ms. Bayo:

On October 19, 2006, OPC filed the testimony of witnesses Robert Sansom and Patricia Merchant in the above docket. In the letter that accompanied the testimony, I indicated that Ms. Merchant would revise her testimony in light of a calculation by Mr. Sansom that was unavailable to her at the time she prepared her original testimony. Attached for filing and appropriate distribution are the original and 15 copies of Ms. Merchant's revised testimony and exhibits.

- CMP _____
- COM 5
- CTR Org
- ECR ()
- GCL 1
- OPC _____
- RCA _____
- SCR _____
- SGA _____
- SEC 1
- OTM _____

Thank you for your assistance.

Yours truly,

Joe McGlothlin
Joseph A. McGlothlin

Cc: parties of record

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FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
10103 NOV-1 06
FPSC-COMMISSION CLERK

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: November 1, 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
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Attorneys for the Citizens
of the State of Florida

DOCUMENT NUMBER-DATE

10103 NOV-18

FPSC-COMMISSION CLERK

1 (REVISED) DIRECT TESTIMONY

2 OF

3 PATRICIA W. MERCHANT, CPA

4 On Behalf of the Office of Public Counsel

5 Before the

6 Florida Public Service Commission

7 Docket No. 060658-EI

8
9 Introduction

10 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

11 A. My name is Patricia W. Merchant. My business address is Room 812, 111
12 West Madison Street, Tallahassee Florida, 32399-1400.

13
14 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR
15 POSITION?

16 A. I am a Certified Public Accountant licensed in the State of Florida and
17 employed as a Senior Legislative Analyst with the Office of Public Counsel
18 (OPC). I began my employment with OPC in March, 2005.

19
20 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
21 PROFESSIONAL EXPERIENCE.

22 A. In 1981, I received a Bachelor of Science degree with a major in accounting
23 from Florida State University. In that same year, I became employed with the
24 Florida Public Service Commission (PSC) as an auditor in the Division of
25 Auditing and Financial Analysis. In 1983, I joined the PSC's Division of

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 REVISED TESTIMONY?**

20 A. On October 18, 2006, I submitted prefiled testimony containing a calculation
21 of the interest that should be associated with the refund by Progress Energy
22 Florida Inc. (PEF) of excessive fuel charges that OPC witness Robert Sansom
23 identified and quantified. After I made my calculation, Mr. Sansom modified
24 the excessive fuel charges slightly, increasing the total amount of overcharges
25 supported by his testimony from \$132,939,574 to \$134,523,343. The purpose

1 of my revised testimony is to calculate the interest component that conforms
2 to the refund proposed by Mr. Sansom in his prefiled testimony. Accordingly,
3 I have updated the exhibit that I attached to my earlier testimony. The revised
4 Exhibit (PWM-2) also contains two pages that were inadvertently omitted
5 from the first version.

6 **Q. PLEASE EXPLAIN HOW YOU MADE YOUR INTEREST**
7 **CALCULATION ON MR. SANSOM'S RECOMMENDED REFUND**
8 **AMOUNTS.**

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

18
19 **Q. WHAT INTEREST RATE DID YOU APPLY IN YOUR**
20 **CALCULATIONS?**

21 A. I used the 30-day commercial paper rate that is required to be applied to
22 refunds by Rule 25-6.109(4)(a), Florida Administrative Code. I received
23 these rates from the Commission staff, who compile the monthly 30-day
24 commercial paper rates as reported in the Wall Street Journal on the first
25 business day of each month. I then took the monthly average interest rates for

1 each year and calculated an annual average interest rate. I used an annual
2 average interest rate because I only have annual refund amounts, not monthly
3 amounts. I reflect the monthly average 30-day commercial paper interest rates
4 and my annual averages in Exhibit PWM-2, pages 2 and 3.

5
6 **Q. HOW DID YOU DETERMINE THE INTEREST RATE TO USE FOR**
7 **2006?**

8 A. I took the monthly average interest rates for January through September and
9 calculated a nine-month average interest rate. I applied this average rate the
10 beginning balance of excess fuel charges in 2006 and calculated a full year of
11 interest. When the final refund is made, this nine-month average should be
12 replaced with the actual monthly average rates for October 2006 through the
13 date of the refund.

14
15 **Q. WHAT IS THE TOTAL AMOUNT OF INTEREST THAT YOU HAVE**
16 **CALCULATED ON THE EXCESS FUEL COSTS FROM 1996 TO THE**
17 **END OF 2006?**

18 A. Based on my calculations, the total interest on the excess fuel costs is
19 \$22,491,279. The cut-off date of my calculation is December 31, 2006.
20 Adding this interest to the amount recommended by Mr. Sansom of
21 \$134,523,343, reflects a total amount of excess fuel and interest costs of
22 \$157,014,622.

23
24 **Q. DOES THIS COMPLETE YOUR REVISED TESTIMONY?**

25 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 1st day of November, 2006, to the following:

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Curriculum Vitae

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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

**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	\$21,800,567	\$114,120,474	1.4242%	\$1,625,266	\$115,745,740
2005	\$115,745,740	\$29,086,051	\$144,831,791	3.3050%	\$4,786,691	\$149,618,482
2006	<u>\$149,618,482</u>	<u>\$0</u>	<u>\$149,618,482</u>	4.9433%	<u>\$7,396,140</u>	<u>\$157,014,622</u>
Totals		<u>\$134,523,343</u>			<u>\$22,491,279</u>	<u>\$157,014,622</u>

30-Day Commercial Paper Monthly Rates

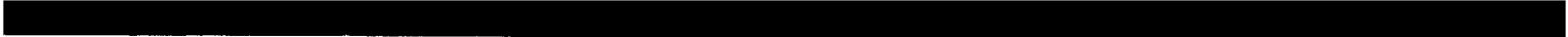
<u>Month</u>	<u>Average For the Month</u>	<u>Annual Average</u>	<u>Month</u>	<u>Average For the Month</u>	<u>Annual Average</u>
Jan-96	5.605		Jan-99	4.855	
Feb-96	5.365		Feb-99	4.83	
Mar-96	5.415		Mar-99	4.865	
Apr-96	5.45		Apr-99	4.84	
May-96	5.4		May-99	4.825	
Jun-96	5.46		Jun-99	4.95	
Jul-96	5.485		Jul-99	5.075	
Aug-96	5.425		Aug-99	5.21	
Sep-96	5.42		Sep-99	5.31	
Oct-96	5.41		Oct-99	5.3	
Nov-96	5.415		Nov-99	5.425	
Dec-96	5.7	5.4625%	Dec-99	5.575	5.0883%
Jan-97	5.7		Jan-00	5.7	
Feb-97	5.44		Feb-00	5.8	
Mar-97	5.585		Mar-00	5.935	
Apr-97	5.68		Apr-00	6.125	
May-97	5.61		May-00	6.375	
Jun-97	5.61		Jun-00	6.575	
Jul-97	5.6		Jul-00	6.54	
Aug-97	5.57		Aug-00	6.49	
Sep-97	5.545		Sep-00	6.49	
Oct-97	5.53		Oct-00	6.495	
Nov-97	5.565		Nov-00	6.57	
Dec-97	5.675	5.5925%	Dec-00	6.575	6.3058%
Jan-98	5.625		Jan-01	6.025	
Feb-98	5.515		Feb-01	5.35	
Mar-98	5.54		Mar-01	5.075	
Apr-98	5.54		Apr-01	4.685	
May-98	5.515		May-01	4.155	
Jun-98	5.55		Jun-01	3.87	
Jul-98	5.58		Jul-01	3.775	
Aug-98	5.54		Aug-01	3.61	
Sep-98	5.37		Sep-01	3.07	
Oct-98	5.16		Oct-01	2.445	
Nov-98	5.3		Nov-01	2.13	
Dec-98	5.2	5.4529%	Dec-01	1.91	3.8417%

Source: PSC staff compilation of monthly 30-day commercial paper rates as reported in the Wall Street Journal on the first business day of each month

30-Day Commercial Paper Monthly Rates

<u>Month</u>	<u>Average For the Month</u>	<u>Annual Average</u>	<u>Month</u>	<u>Average For the Month</u>	<u>Annual Average</u>
Jan-02	1.775		Jan-05	2.42	
Feb-02	1.76		Feb-05	2.575	
Mar-02	1.775		Mar-05	2.715	
Apr-02	1.775		Apr-05	2.88	
May-02	1.76		May-05	3.02	
Jun-02	1.76		Jun-05	3.165	
Jul-02	1.74		Jul-05	3.35	
Aug-02	1.72		Aug-05	3.535	
Sep-02	1.735		Sep-05	3.715	
Oct-02	1.705		Oct-05	3.91	
Nov-02	1.475		Nov-05	4.12	
Dec-02	1.295	1.6896%	Dec-05	4.255	3.3050%
Jan-03	1.28		Jan-06	4.405	
Feb-03	1.26		Feb-06	4.52	
Mar-03	1.215		Mar-06	4.655	
Apr-03	1.185		Apr-06	4.87	
May-03	1.2		May-06	4.985	
Jun-03	1.105		Jun-06	5.15	
Jul-03	1.025		Jul-06	5.325	
Aug-03	1.055		Aug-06	5.315	
Sep-03	1.06		Sep-06	5.265	4.9433%
Oct-03	1.055				
Nov-03	1.025				
Dec-03	1.03	1.1246%			
Jan-04	1.045				
Feb-04	1.005				
Mar-04	0.98				
Apr-04	1.005				
May-04	1.035				
Jun-04	1.185				
Jul-04	1.4				
Aug-04	1.535				
Sep-04	1.685				
Oct-04	1.855				
Nov-04	2.08				
Dec-04	2.28	1.4242%			

Source: PSC staff compilation of monthly 30-day commercial paper rates as reported in the Wall Street Journal on the first business day of each month



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