

State of Florida



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-M-E-M-O-R-A-N-D-U-M-

DATE: June 2, 2009
TO: Ann Cole, Commission Clerk, Office of Commission Clerk
FROM: Katherine Fleming, Senior Attorney, Office of the General Counsel *KEF*
RE: Docket Number 090145-EI - Petition for expedited approval of the deferral of pension expenses, authorization to charge storm hardening expenses to the storm damage reserve, and variance from or waiver of Rule 25-6.0143(1)(c), (d), and (f), F.A.C., by Progress Energy Florida, Inc.

Please place the attached document in the above-referenced docket file. Thank you.

KEF

DOCUMENT NUMBER-DATE

05472 JUN-28

FPSC-COMMISSION CLERK

Katherine Fleming

From: Burnett, John [John.Burnett@pgnmail.com]
Sent: Wednesday, May 27, 2009 2:22 PM
To: Katherine Fleming
Subject: PEF Pension Deferral Petition- Docket 090145-EI

Katherine:

I think that Javier may have had a call with a technical staff member that led to the following informal questions noted below. Although this is a PAA docket, I wanted to go ahead and route these through you to get the responses back to technical staff just in case you wanted/needed to have the responses moved into the formal record. Thanks, and please let me know if there are any questions or if anyone needs any other information. Thanks, John.

1. Referring to paragraph 9 on page 6 of PEF's petition in Docket No. 090145-EI, what is the retail or jurisdictional amount associated with the projected pension expense of approximately \$33.9 million (system) for the year ended December 31, 2009?

Response: The retail equivalent to the \$33.9 million (system) is \$31.1 million (retail)

2. Assuming PEF's request to defer the \$52.5 million (retail) associated with pension expense is approved by the Commission as filed, how and when would PEF recover this amount from customers?

Response: PEF anticipates amortizing the regulatory asset to the extent of any pension credits that may be generated until its next base rate proceeding beyond 2010. In addition, PEF would seek authorization, at its discretion, to accelerate the amortization of any remaining regulatory asset, until the amount of any unrecovered regulatory asset is considered in a future base rate case. At that time, the base rate case would include the revenue requirements from the amortization of the remaining amount of the regulatory asset over a definitive period deemed appropriate by the Commission. Any unrecovered regulatory asset created by this request would remain in rate base until it was fully recovered.

3. Assuming PEF's request to defer the \$52.5 million (retail) associated with pension expense is approved by the Commission as filed, how will the deferred asset be reported on the Company's Earnings Surveillance Reports? For purposes of this response, please explain what factors may cause the balance to change over time.

Response: The regulatory asset approved by the Commission would be reported in Earnings Surveillance as part of working capital and that balance would change over time. Please see PEF's response to Question 2 regarding the effect that future pension credits may have to offset some or all of the amount of this deferral.

4. With respect to the projected test year ended December 31, 2010, in Docket No. 090079-EI, what annual pension expense has PEF included in O&M expense for purposes of determining the 2010 test year revenue requirement?

Response: The 2010 test year O&M pension expense is \$33.6 million (system) or \$29.5 million (retail). A retail revenue requirement difference of \$50 million when compared to the pension

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credit currently in base rate revenue requirements.

John T. Burnett
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Katherine Fleming

From: Portuondo, Javier J [Javier.Portuondo@pgnmail.com]
Sent: Monday, June 01, 2009 4:32 PM
To: Andrew Maurey
Cc: Katherine Fleming; Burnett, John
Subject: RE:

Andrew,

We are still working on question no. 2 but wanted you to have these as quickly as possible. My staff is double checking the 2010 figure as there might be an error in the figures I used in my prior response.

1. Referring to the Company's response to question 4 from the data request dated May 27, can PEF cite to a Commission Order or ruling that identifies the approximate \$20.5 million "pension credit currently in base rate revenue requirements"?

PEF is not aware of any Commission order or ruling that specifically identifies a \$20.5 million (retail) or \$23.3 system pension credit currently in base rate revenue requirements. However, PEF's 2009 Interim Rate request was based on 2008 earnings, which included approximately \$20.5 million of pension income. The Commission used this same 2008 earnings data in its consideration and ultimate approval of PEF's Interim Rate request on May 19, 2009. PEF's 2009 Interim Rate request was based on 2008 earnings, which included approximately \$20.5 million (retail) pension income. This was approved by the Commission on May 19, 2009. An order has not yet been issued.

3. According to page 197 of PEF's 2008 Form 10K filed with the SEC, the Company reported pension benefits of \$20 million, \$16 million, and \$11 million, in 2008, 2007, and 2006, respectively. How were these amounts treated for ratemaking purposes?

The 2008 pension benefit served to reduce the interim rate request referenced in item 1 above. The 2007 and 2006 pension benefits impacted return on equity as reported in the monthly surveillance reports and helped mitigate the impact of increasing costs and declining sales growth.

4. In discussing its request, PEF has stated that the deferred asset associated with pension expense would not earn a return or carrying charge. Please describe how this will be achieved.

The deferred asset would be excluded from the calculation of 2010 test year revenue requirements in the current rate case proceeding but will be included in rate base for earnings surveillance reporting purposes.

5. What is the total amount of employee and officer bonuses that PEF projects to pay in 2009?

According to MFR C-35, PEF has included approximately \$33.2 million in incentive compensation in its 2009 budget. The incentive compensation program is a component of the overall compensation program and it is tied to the achievement of certain corporate goals including operational goals, reliability goals, customer service goals, and financial goals. The amount that will actually be paid out for 2009 is contingent on the achievement of these goals.

6. In the event a deferred asset for pension expense is approved, would the Company agree to write down that asset in future years as pension income or other income sources are experienced in a manner that does not affect customer rates?

Yes, until the next retail rate case, beyond 2010, PEF will contribute any pension expense levels below the allowance provided for in rates in the 2010 base rate proceeding towards the amortization of the 2009 Pension Regulatory Asset. Upon the next retail rate case, beyond 2010 but not prior to 2015, PEF would include in revenue requirements the amortization of the remaining amount of the 2009 Pension Regulatory Asset over a

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definitive period deemed appropriate by the Commission. Until that time the remaining balance of 2009 Pension Regulatory Asset will be included in rate base for the determination of earnings and Earnings Surveillance Reporting.

Javier J Portuondo
Dir. Regulatory Planning
Progress Energy Service Co. LLC
Office 919.546.4188
Cell 727.420.8751

From: Andrew Maurey [mailto:AMaurey@PSC.STATE.FL.US]
Sent: Friday, May 29, 2009 5:08 PM
To: Portuondo, Javier J
Cc: Katherine Fleming
Subject:

Javier,

Here are the questions we discussed earlier. I did add one additional question at the end. Thank you for the quick turnaround.

1. Referring to the Company's response to question 4 from the data request dated May 27, can PEF cite to a Commission Order or ruling that identifies the approximate \$20.5 million "pension credit currently in base rate revenue requirements"?
2. Referring to the Company's response to question 4 from the data request dated May 27, please reconcile the \$29.5 million (retail) pension expense identified in the response to the \$30.9 million pension expense listed on line 13, column (A) on MFR Schedule C-17, page 1 of 2.
3. According to page 197 of PEF's 2008 Form 10K filed with the SEC, the Company reported pension benefits of \$20 million, \$16 million, and \$11 million, in 2008, 2007, and 2006, respectively. How were these amounts treated for ratemaking purposes?
4. In discussing its request, PEF has stated that the deferred asset associated with pension expense would not earn a return or carrying charge. Please describe how this will be achieved.
5. What is the total amount of employee and officer bonuses that PEF projects to pay in 2009?
6. In the event a deferred asset for pension expense is approved, would the Company agree to write down that asset in future years as pension income or other income sources are experienced in a manner that does not affect customer rates?

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regards,

Andrew

Andrew L. Maurey
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Katherine Fleming

From: Portuondo, Javier J [Javier.Portuondo@pgnmail.com]
Sent: Tuesday, June 02, 2009 12:27 PM
To: Andrew Maurey
Cc: Katherine Fleming; Burnett, John
Subject: FW: Pension Question
Importance: High

Andrew,

Here is the response to question no. 2 of your second set of questions. I apologized but as you can see I did have an error in the response to question no. 4 of your first set and it turns out that we also had an error in the 2009 figure used in our petition. The table below now reflect the correct estimated deferral amount for 2009 of \$52.9 million retail.

2. Referring to the Company's response to question 4 from the data request dated May 27, please reconcile the \$29.5 million (retail) pension expense identified in the response to the \$30.9 million pension expense listed on line 13, column (A) on MFR Schedule C-17, page 1 of 2.

In both the response to the data request and MFR C-17, the total pension cost to PEF is the same, \$44.8 million in 2010. MFR C-17, page 1 of 2, line 12, column (A) reflects that 31% of the pension cost is expected to be capitalized. This amount is accurate. An incorrect percentage was applied to the total pension cost in PEF's response to the data request. The total retail portion of pension expense is \$30.9 million multiplied by a retail factor of 87.69%, which equals \$27.1 million. I do have a correction to the 2009 calculation to reflect the appropriate 2009 projected pension cost per MFR C-17. The updated amount of the deferral is \$52.9 million retail as shown below. These calculations represent estimates. The actual pension expense incurred during 2009 will be incorporated in the calculation below, Line 2, in determining the final Regulatory Asset at the end of 2009, Line 3 below.

PROGRESS ENERGY FLORIDA
Accounting Order - Pension Expense Deferral

| | 2009 | | 2009 | |
|----|---|------------------------------|------------------------------|----------------------|
| | <u>OEM System</u> | <u>allocation Factor (2)</u> | <u>OEM Retail</u> | |
| 1 | 2008 Projected Pension Cost per - Docket 090079 E1 (1) | \$ (23,343,000) | 91.716% | \$ (21,409,266) |
| 2 | 2009 Projected Pension Cost per - Docket 090079 E1 MFR C-17 | <u>34,364,000</u> | <u>91.716%</u> | <u>31,517,286</u> |
| 3 | Increase in Pension Cost - Proposed Regulatory Asset | <u>\$ 57,707,000</u> | <u>91.716%</u> | <u>\$ 52,926,552</u> |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | | | | |
| 8 | | | | |
| | | 2010 | | 2010 |
| | | <u>OEM System</u> | <u>allocation Factor (2)</u> | <u>OEM Retail</u> |
| 9 | 2008 Projected Pension Cost per - Docket 090079 E1 (1) | \$ (23,343,000) | 87.691% | \$ (20,469,710) |
| 10 | 2010 Projected Pension Cost per - Docket 090079 E1 MFR C-17 | <u>30,942,000</u> | <u>87.691%</u> | <u>27,133,349</u> |
| 11 | Increase in Pension Cost | <u>\$ 54,285,000</u> | <u>87.691%</u> | <u>\$ 47,603,059</u> |

14 (1) Represents the actual amount of Pension income included in PEF's calendar year 2008 earnings per
 15 MFR C-17

16 (2) 2009 Retail Separation factor established in PEF's 2005 Retail Base Rate Proceeding Docket 050078
 17 ref. MFR C-4 page 10 of 42, Account 92600.

18 2010 Retail Separation factor established in PEF's 2009 Retail Base Rate Proceeding Docket 090079 -
 19 ref. MFR C-4 page 12 of 48, Line No. 25, Account 92600.

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