BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in Rates by Progress Energy Florida.	**DOCKET NO. 090079-EI** **Filed: August 10, 2009**

TESTIMONY AND EXHIBITS OF MARTIN J. MARZ

ON BEHALF OF THE FLORIDA INDUSTRIAL POWER USERS GROUP

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List of Acronyms

CR4	Crystal River 4
EAL	Expected Annual Loss
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EPS	Earnings Per Share
ECIP	Employee Cash Incentive Plan
EIP	Executive Incentive Plan
FERC	Federal Energy Regulatory Commission
FIPUG	Florida Industrial Power Users Group
IVM	Integrated Vegetation Management
kW	Kilowatt-hours
MICP	Management Incentive Compensation Plan
MFR	Minimum Filing Requirement
O&M	Operation & Maintenance Expense
OPC	Office of Public Counsel
Progress	Progress Energy, Inc.
PEF	Progress Energy Florida
PUCT	Public Utility Commission of Texas
TECO	Tampa Electric Company

1. INTRODUCTION, QUALIFICATIONS, AND PURPOSE

Q **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A Martin J. Marz; J. Pollock, Incorporated, 1525 Lakeville Drive, Kingwood, Texas 77339.

Q. **WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

A. I am an Energy Advisor and Senior Consultant for J. Pollock, Incorporated.

Q. **WHAT IS YOUR EDUCATIONAL BACKGROUND?**

A. I have a Bachelor of Arts in Political Science from the University of Akron, and a *Juris Doctor* from the University of Akron, School of Law.

Q. **PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

A. I have 27 years of experience in the energy industry (both in gas and electricity matters). This includes participation in various regulatory proceedings. More information is provided in **Appendix A**.

Q **ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

A I am testifying on behalf of the Florida Industrial Power Users Group (FIPUG). Participating FIPUG members purchase electricity from Progress Energy Florida (PEF).

Q **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A I will address the following issues:

- Adjustments to certain test year operation and maintenance (O&M) expenses;
- Incentive compensation; and
- PEF's proposed increase in the annual storm damage accrual.

Q ARE YOU FILING ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A Yes. I am filing Exhibits MJM-1 through MJM-5. These exhibits were prepared by me or under my direction and supervision.

<u>Summary</u>

Q PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A First, I am recommending adjustments to the following Test year O&M expenses:

- $17.65 million for Transmission and Distribution Overhead Line maintenance expenses;
- $15 million for Production maintenance expense.

These adjustments are essential to correct a severe "spike" in PEF's projected O&M expenses. Specifically, test year transmission and distribution O&M would increase by 60% and 37%, respectively, relative to actual/projected expenses for the period 2006 through 2009, under PEF's proposal. This includes 47% (transmission) and 44% (distribution) increases from 2009 to 2010. Similarly, steam and other generation maintenance expense would increase by 36% relative to 2009 and by 57% relative to the average of the most recent four- year period. These increases are excessive and have not been supported. Because base rates established in this proceeding are likely to remain in effect for a period well beyond 2010, the recommended adjustments are necessary to ensure that rates are representative of what is likely to occur.

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Second, I am recommending \$18.25 million of adjustments to exclude incentive compensation that is specifically targeted to achieving financial goals. This includes all of the executive/senior management incentive compensation and 50% of the incentive compensation for other management and non-management employees. These costs benefit Progress (the holding company) shareholders and should not be subsidized by PEF ratepayers.

Finally, PEF's proposed \$10 million increase in annual contributions to the storm reserve should be rejected because the current \$133 million storm reserve balance is sufficient to cover all but the most serious of storm events. PEF's proposal clearly violates the Commission's existing framework, which is predicated upon a multi-faceted approach to funding storm damage. This approach does not rely solely on the storm reserve accrual to provide coverage for storm damage. Even without any additional contributions, the storm reserve is adequate to provide coverage for the estimated annual average loss for the next eight years. Thus, contributions should cease.

2. TEST YEAR

Background

Q **WHAT TEST YEAR IS PROGRESS ENERGY FLORIDA (PEF) PROPOSING IN THIS PROCEEDING?**

A PEF is proposing to use calendar year 2010 as its test year.

Q **EXPLAIN THE CONCEPT OF THE TEST YEAR.**

A A test year is a period of 12 months (sometimes but not always a calendar year) used to measure the utility's revenues and expenses for the purpose of setting base rates. In order to set rates that provide the utility a reasonable opportunity to earn a reasonable return on its used and useful investment in property and equipment, the test year must be representative of and reflect the conditions expected to exist during the period when new base rates are expected to be in effect. Thus, non-recurring and other atypical items (both on the revenue and expense side of the equation) need to be adjusted to reflect expected conditions.

Q **IS PEF PROJECTING A CONTINUATION OF THE GROWTH IN SALES THAT HAS OCCURRED IN THE MOST RECENT 10-YEAR PERIOD?**

A No. PEF has experienced sales growth of 2.0% through 2008. In the short run, 2009 and 2010, PEF is projecting sales growth of only 0.1% and 0.4%, respectively. Long-term sales are projected to grow 1.7% per year. (Progress Energy Florida, Inc., *Ten-Year Site Plan*, April 2009).

Q DOES SLOWER PROJECTED GROWTH IN THE TEST YEAR RAISE ANY CONCERNS?

A Yes. Base rates reflect a utility's test year costs divided by test year sales. The higher the costs (*i.e.*, the numerator) and/or the lower the sales (*i.e.*, the denominator), the higher the rates. All other things being equal, higher rates will provide the utility the opportunity for increased revenues and increased returns to shareholders. Given that PEF is forecasting slower than normal sales growth and substantial increases in certain O&M expenses, the Commission should review the filing with some degree of skepticism.

Q ARE PROJECTED TEST YEAR SALES THE ONLY FACTOR THE COMMISSION SHOULD CONSIDER IN SETTING RATES IN THIS PROCEEDING?

A No. The Commission also needs to give consideration to the time frame that new base rates may be expected to be in effect. That is, based on past history, the rates set in this proceeding may very well remain in effect for a period out to 2014-2015. Setting rates based on depressed sales will create an enhanced opportunity for PEF to increase its overall shareholder return and charge ratepayers rates that are potentially unjust and unreasonable. Additionally, the overall growth in expenses needs to be examined in detail to ensure that the projected level of expenses is representative of what may be incurred over more than one year.

Q **HAS THE COMPANY INDICATED HOW LONG IT ANTICIPATES THAT THE PROPOSED RATES MAY BE IN EFFECT?**

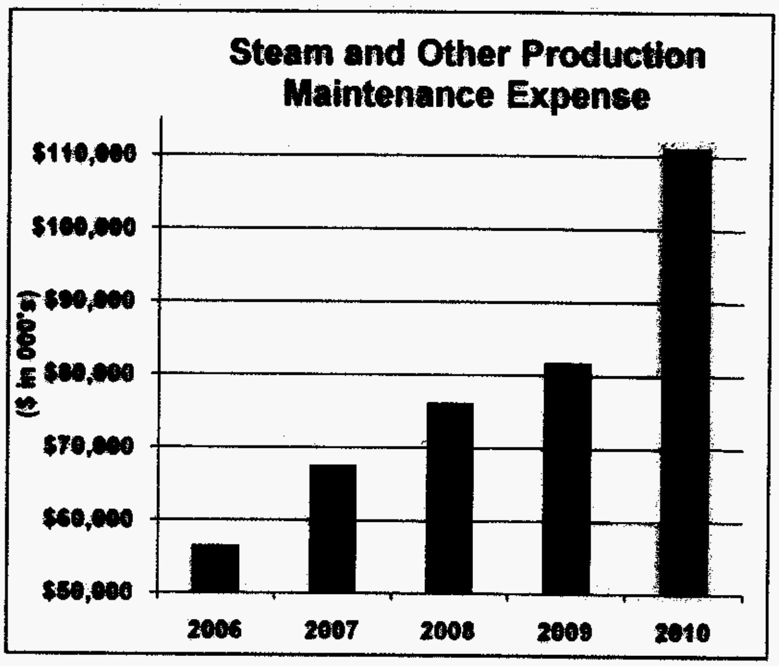
A No. However, PEF's last fully litigated rate case was in 1993. (*PEF Petition to Increase Rates* at 5). Because it may be some time before PEF's next full base rate review, it is critical to ensure that test year projections, which form the basis for the proposed rates, are accurate.

Q **DESPITE THE SLOWER GROWTH, IS PEF PROJECTING SUBSTANTIAL INCREASES IN TEST YEAR O&M EXPENSES RELATIVE TO PAST YEARS?**

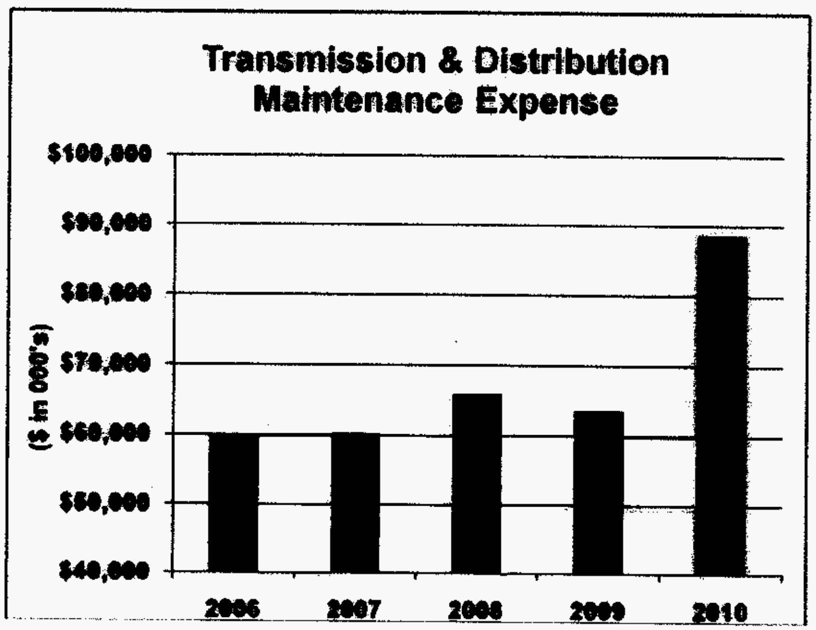
A Yes. PEF's test year O&M expenses are dramatically higher than the corresponding expenses for the period 2006 through 2009, as shown in the table below:

Projected Increases in O&M Expenses ($Millions)				
Function	**Average 2006-2009**	**Test Year**	**Increase**	**Percent Increase**
Production Maintenance Steam and Other	$70.6	$111.1	$40.6	57%
Transmission	$14.0	$22.4	$8.4	60%
Distribution	$48.4	$66.2	$17.8	37%

Annual non-fuel production maintenance expenses are shown in the following tables. As can be seen, for steam and other generation maintenance expense, the largest increase would occur from 2009 to the test year ($29.3 million, or 36%). *See*, **Exhibit MJM-2**. This increase is even more remarkable given that PEF is not projecting to add generation capacity in the test year.



A similar spike is projected in test year transmission and distribution O&M expenses, as shown below.



(Amounts from MFR Schedule C-6 Account Nos. 568-573 and 590-598).

The test year spikes highlight the need for the Commission to carefully review the overall expenses reflected in PEF's test year.

Q **DO YOU HAVE ANY OTHER CONCERNS REGARDING PEF'S 2010 TEST YEAR BUDGET NUMBERS?**

A Yes. The 2010 budget was prepared in 2008 as part of a two-year budget. (*Direct Testimony of Peter Toomey* at 14). I would not expect that the test year expenses will be the actual expenses under which PEF operates in 2010. In my experience, corporations go through an annual budget process for purposes of establishing operating budgets for the upcoming year. Further, given the challenging economic times, it would be reasonable for PEF to have semi-annual or even quarterly reviews of the existing budget, with senior management putting pressure on the various operating groups or departments to reduce expenditures in order to maintain or increase overall earnings to shareholders. In fact, Mark Mulhern—Chief Financial Officer of Progress Energy, Inc. (the parent of PEF), in a presentation to analysts and investors made at Progress Energy Inc.'s Analyst and Investor Day on February 27, 2009—indicated that there was significant "belt tightening" efforts underway along with an effort to reduce 2009 budgets. Given the current economic conditions, there will more than likely be a similar effort directed at 2010 expenditures (see: http://www.progress-energy.com/investors/newsevents/webcasts/index.asp).

Q **WILL PEF BE ADDING GENERATION DURING AND AFTER THE TEST YEAR THAT WILL CAUSE THE NEED FOR RATE RELIEF?**

A No. PEF's next capacity addition is the up-rate at the Crystal River 3 Plant planned for 2011. These costs will be recovered through the Nuclear Cost Recovery clause and will not impact base rates. The next planned capacity additions occur in 2014 and 2015. (Progress Energy Florida Inc., *Ten-Year Site Plan*, April 2009 at 3-2).

Q **IS IT LIKELY THAT THE BASE RATES IMPLEMENTED IN THIS PROCEEDING WILL REMAIN IN EFFECT BEYOND 2010?**

A Yes. Given that there are no substantial generation additions impacting base rates until 2014, the proposed kWh sales levels reflected in the filing and PEF's history of rate requests, I believe that any rate change approved by the Commission will likely remain in place for a minimum of three years, if not longer. This makes it important that the sales (billing determinants) and expenses be set at a level that will result in just and reasonable rates for a period beyond 2010.

<u>O&M Adjustments</u>

Q **WHAT ADJUSTMENTS SHOULD BE MADE TO TEST YEAR O&M EXPENSE?**

A In order to make the test year more representative, the following reductions should be made to O&M expenses:

- $3.75 million for FERC Account No. 571 – Transmission Overhead Lines Maintenance;
- $13.9 million for FERC Account 593 – Distribution Overhead Line Maintenance;

- $15 million adjustment to Steam and Other Generation Maintenance expenses.

Each of the proposed adjustments is discussed in greater detail below.

Maintenance of Overhead Lines

Q WHAT ARE FERC ACCOUNT NOS. 571 AND 593?

A FERC Account No. 571 is for the recording of expenses associated with maintenance of overhead transmission lines. FERC Account No. 593 is for the recording of expenses associated with the maintenance of overhead distribution lines. Included within the type of expenses to be recorded in the two accounts are maintenance costs associated with tree trimming and vegetation removal and management.

Q HOW MUCH HAS PEF INCLUDED IN THE RESPECTIVE ACCOUNTS FOR THE 2010 TEST YEAR?

A **Exhibit MJM-1** shows budgeted amounts for the test year of $11.8 million in Account 571 and $45.8 million for Account 593.

Q WHAT DO YOU RECOMMEND FOR THE TWO ACCOUNTS?

A I recommend that these expenses be reduced by $3.75 million and $13.9 million, respectively. This would result in adjusted expenses of $8.05 million and $31.9 million for Account 571 and Account 593, respectively.

Q WHAT REASON HAS THE COMPANY PROVIDED FOR THE INCREASES IN THOSE TWO ACCOUNTS?

A PEF witness Joyner attributes the large increase to additional cost of vegetation management related to certain Commission initiatives pertaining to hurricane preparation and storm hardening.

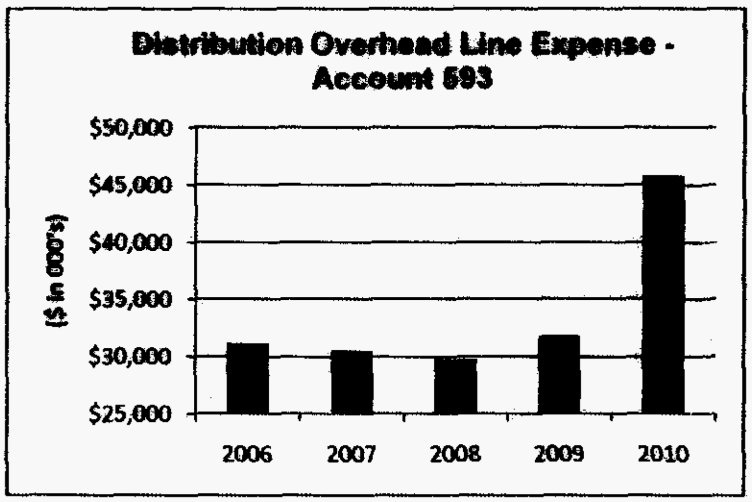
Q ARE HURRICANE PREPARATION AND STORM HARDENING INITIATIVES NEW UNDERTAKINGS?

A No. The Commission established a ten-step program to encourage vegetation management in 2006 following a series of tropical storms and hurricanes that struck Florida during the 2004 – 2005 time frame. In 2006, the Commission "issued Order No. PSC-06-0351-PAA-EI, requiring the investor-owned electric utilities to file plans and estimated implementation costs for ten ongoing storm preparedness initiatives on or before June 1, 2006." (*Order No. PSC-06-0947-PAA-EI, Docket No. 060198-EI*, November 13, 2006). By 2006, PEF had already undertaken a review of its vegetation management policy and implemented an integrated vegetation management (IVM) program. The IVM program was approved by the Commission in late 2006. *(Id.)* Separately, in 2007, the Commission approved PEF's storm hardening plan. (*Order No. PSC-07-1021-FOF-EI* Docket *No.* 070288-EI, December 28, 2007). As such, implementation of both the IVM program and storm hardening began well before 2010.

Q WHAT DOES THE IMPLEMENTATION OF THE INTEGRATED VEGETATION MANAGEMENT PROGRAM IN 2006 SUGGEST FOR COSTS IN 2010?

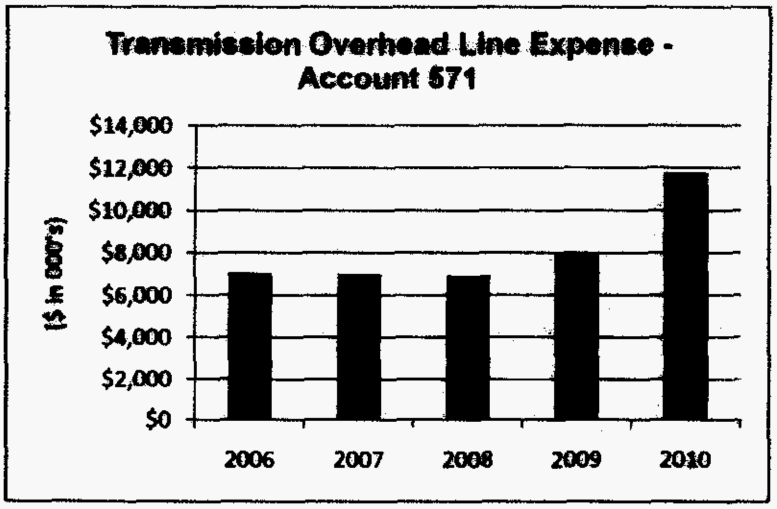
A First, the overall increase in costs associated with the IVM program should already be reflected in actual tree trimming and vegetation management expenses in both Accounts 571 and 593 as far back as 2006. Actual Account

593 costs remained relatively constant from 2006 through 2008 up to and including the budgeted 2009 expense, as shown on the table below. However, PEF is projecting a substantial increase in 2010.



(MFR Schedule C-6).

Similarly, as shown in the table below, Account. 571 costs increased by $3.8 million (47%) from 2009 to 2010, and $4.5 million (62%) higher than the 2006-2009 average expenses, as shown in **Exhibit MJM-1**.



Given that the IVM program was approved and implemented in 2006, a substantial cost increase should not only now be reflected in the test year expenses. In fact, comparing actual to budgeted expenses on MFR C-6 for the two accounts, it is clear that there has already been a substantial increase in costs for maintenance of overhead lines beginning in 2007.

This spike in overhead line expense creates a separate question: Did PEF implement the IVM in 2006 as claimed and the storm hardening program following Commission approval in 2007? If so, there should not be a spike in overhead line maintenance in the 2010 test year. The cost increases associated with those programs should be reflected in PEF's actual 2008 and 2009 budget expenses. Thus, the projected increase in test year costs cannot be explained by the IVM and storm hardening programs. Therefore, I recommend that 2009 levels be used for the test year expenses for Accounts 571 and 593. This would reduce O&M expenses by $3.75 million for Account 571 and $13.9 million for Account 593.

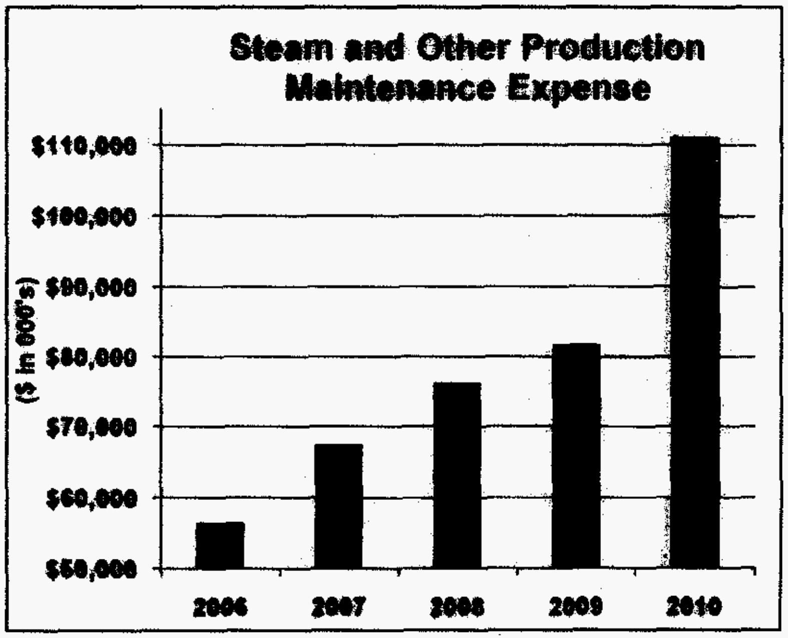
Production Maintenance Expenses

Q WHAT ARE THE STEAM AND OTHER PRODUCTION MAINTENANCE COSTS ON A TOTAL COMPANY BASIS REFLECTED IN THE FILING?

A As shown on Schedule MFR C-6, the 2010 test year Steam and Other Production Maintenance expenses are $111.1 million.

Q WHY ARE YOU PROPOSING TO ADJUST PRODUCTION MAINTENANCE EXPENSES?

A The test year steam and other generation maintenance expenses are overstated. Comparing the 2010 test year expense to the 2009 budgeted numbers, PEF is projecting a $29.3 million or a 36% increase. The corresponding four-year average (2006-2009) increase is $40.6 million or 57% as shown on **Exhibit MJM-2**. The following table highlights the overall increase in production maintenance expenses year over year.



Q WHAT IS CONTRIBUTING TO THESE SUBSTANTIAL INCREASES?

A PEF witness Sorrick identifies an accelerated outage at Crystal River 4 (CR4), for major boiler and turbine maintenance that will cost $9.3 million. Thus, it accounts for 28% of the projected increase in Steam Generation Maintenance expense.

Q WAS THE CR4 OUTAGE ORIGINALLY SCHEDULED FOR THE TEST YEAR?

A No. The CR4 outage was moved to 2010 from a later time period (sometime after 2010). (*Direct Testimony of David Sorrick* at 27).

Q DOES THE CR4 OUTAGE OCCUR ANNUALLY?

A No. PEF has acknowledged that this particular outage occurs every nine years:

> The type of work that will be performed during the boiler outage includes scaffolding the boiler, inspecting the boiler and repairing the items identified during the inspection. The type of work that will be performed during the turbine outage, which is typically performed every 9 years, includes the inspection and repairs of the internal and external steam components. Therefore, these outages have been scheduled to be performed during the spring of 2010 at the same time the FGD and SCRs will be installed. PEF would normally schedule these maintenance outages in the normal course of its operations but PEF decided to accelerate them to capture synergies in outage costs with the outage for the FGD and SCR work as well as minimize lost generation instead of taking an additional outage. (*PEF Response to OPC Interrogatory No. 260)*

Q IS IT APPROPRIATE TO REFLECT THE FULL COST OF THIS OUTAGE FOR RATEMAKING PURPOSES?

A No. Even assuming that the outage should be recognized, the full cost should not be included in setting rates in this case. Doing so assumes that PEF would incur the full outage cost annually instead of once every nine years. Thus, PEF would over-recover its costs. At most, only 11.1% (one-ninth) of the CR4 outage costs should be recognized for ratemaking purposes.

Q **ARE THERE OTHER EXPENSE INCREASES REFLECTED IN THE 2010 TEST YEAR BUDGET?**

A Yes. There are also additional planned outages at certain of the combined cycle and combustion turbine plants increasing overall O&M costs. Mr. Sorrick also points to increased costs at the Hines Power Block and overhauls and increased staffing for the repowered Bartow facility. Finally, there is also a $5.3 million increase for emerging equipment issues and other repairs.

Q **ARE THERE ANY OTHER QUESTIONABLE COSTS?**

A Yes. PEF has included a $5.3 million dollar expense for "emerging equipment" costs and other items. In reviewing the Testimony of Company witness Sorrick and PEF's Response to OPC Interrogatory No. 260, I conclude that the amount is a contingency put in to preserve options. In response to OPC Interrogatory No. 260, PEF indicates that "This funding would be used for forced outage repairs or to take advantage of opportunities to enhance the fleet." From this statement I can only conclude that the amount is a "contingency expense" – something placed in the budget in case expense estimates are too low.

Q **WHAT ADJUSTMENTS SHOULD BE MADE TO PRODUCTION MAINTENANCE EXPENSES?**

A I recommend that an overall $15 million reduction be made to the combined Steam and Other Generation maintenance expense. The adjustment represents an approximate 50% reduction in PEF's projected increase in these expenses from 2010 over 2009. Even at the lower recommended level, it would still represent a 17% increase over PEF's 2009 budget and a 36% increase over the four- year average (2006-2010) expense. **Exhibit MJM-3** highlights the various levels of Steam and Other Generation expenses.

3. INCENTIVE COMPENSATION

Background

Q WHAT IS MEANT BY INCENTIVE COMPENSATION?

A Incentive compensation is the additional compensation paid to employees to encourage certain behavior and/or results. It is paid as a reward for the individual and business group achieving pre-established goals and objectives. Payment is discretionary and contingent on the employee/business unit achieving the goals.

Q IS PEF PROPOSING TO RECOVER COSTS INCURRED UNDER VARIOUS INCENTIVE COMPENSATION PROGRAMS IN BASE RATES?

A Yes. In this proceeding, PEF has proposed to include a total of $33.9 million of incentive compensation in labor costs as a test year expense. (*MFR Schedule C-35*).

Q WHY IS INCENTIVE COMPENSATION AN ISSUE IN SETTING RATES?

A Not all incentive compensation is beneficial to ratepayers. As I discuss below, incentive compensation based on achieving certain operational goals may be a reasonable and necessary expense, which may benefit ratepayers. However, incentive compensation that is targeted to achieve certain financial goals is only for the benefit of shareholders and provides little if any benefit to ratepayers. Thus, the latter expenses should not be charged to ratepayers.

Q SHOULD PEF BE ALLOWED FULL RECOVERY OF ALL PROJECTED INCENTIVE COMPENSATION PAYMENTS?

A No. Incentive compensation that is based on achieving certain financial goals of Progress, the parent of PEF, should be disallowed on the basis that it benefits only shareholders not ratepayers. Therefore, I recommend the following disallowances related to incentive compensation:

- $2.6 million of incentive compensation budgeted for executives and senior management (executives).
- $15.6 million (or 50%) of the incentive compensation applicable to other management and non-management.

My recommendation would result in an overall reduction in incentive compensation of $18.25 million from the level shown on Schedule MFR C-35. *See*, **Exhibit MJM-4**.

Q WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A All of the executive/senior management incentive compensation is contingent and based upon the earnings (operating income or earnings per share (EPS)) of Progress. In the case of other management and non-management employees, at least 50% of the incentive compensation is based upon Progress achieving a certain level of EPS.

PEF Proposal

Q WHAT INCENTIVE COMPENSATION PLANS DOES PEF OFFER ITS EMPLOYEES?

A PEF has several incentive compensation plans: (1) the Executive Incentive Plan (EIP), which applies to Executives, (2) the Senior Management Performance

Sub-Share Plan, which applies to senior managers, (3) the Management Incentive Compensation Plan (MICP), which applies to other managers, and (4) the Employee Cash Incentive Plan (ECIP), which applies to all other employees.

Q HOW DO EACH OF THE VARIOUS INCENTIVE COMPENSATION PLANS WORK?

A Under the EIP, the incentive payment is at the discretion of the Organization and Operations Committee of the Board of Directors of Progress (Committee), with the potential award pool to be funded from up to 1% of the operating income of Progress, the parent of PEF. *(PEF Response to OPC Request to Produce No. 116).*

Under the Senior Management Performance Sub-Share Plan, senior managers may receive stock awards. The level of the stock award payout is tied to a combination of the total shareholder return and the rate of growth in the ongoing earnings per share of Progress during the performance period. Both of these measures are based on the financial results of Progress.

Under the MICP, payout is based in part on EPS of Progress and upon "legal entity" EBITDA (this measure looks at Earnings before Interest, Taxes, Depreciation and Amortization the "legal entity," the operating company, such as PEF or Progress Carolina, as applicable;). *(PEF Response to OPC Request to Produce No. 116).*

Finally, under the ECIP, any payout is based upon two equally weighted components. One component is based upon an EPS target for Progress, with an additional percentage allowable to all employees at the CEO's discretion. *(Id.)*

The other half of the payout is tied to business unit goals and the individual's performance in helping the business unit achieve the goals. Individuals may receive up to 150% of their targeted award, depending upon performance in both categories. (*Id.)* To the extent that only the minimum targeted EPS goal for Progress is met, any payment under the Progress benchmark portion of the award would be zero. Further, to the extent the minimum EPS goal for Progress is not achieved, not only would the portion contingent on Progress achieving its EPS goal not be paid, but the overall business unit portion of the award, referred to as the Operational Excellence portion of the award, may also be reduced by up to 15% (*Id.*).

Q **WHAT PORTION OF THE TEST YEAR INCENTIVE COMPENSATION IS RELATED TO MANAGEMENT AND NON-EXECUTIVE COMPENSATION?**

A Total incentive compensation reflected on MFR Schedule C-35 is $33.9 million, of which $2.6 million is for executive incentive compensation and $31.3 million is for incentive compensation for management and non-executive employees. This is shown in Exhibit MJM-4.

Q **HOW IS PEF TREATING THE INCENTIVE AWARDS FOR PURPOSES OF DETERMINING EXPENSES FOR RATEMAKING PURPOSES?**

A PEF has assumed that the total payout for 2010 will be its full budgeted amount of $33.9 million across all employee classes and has sought to include that full amount in the setting of rates. (*MFR Schedule C-35)*.

Q IS THE PAYMENT OF THE INCENTIVE COMPENSATION GUARANTEED UNDER ANY OF THE PLANS?

A No. With the exception of the ECIP, the other programs are discretionary and contingent upon the earnings target(s) being met. Under the ECIP, at least one half of the potential payout is contingent on the EPS minimum target for the year being exceeded, and as to the remaining portion of the payout, it is contingent upon the employee's performance and that of the business unit in achieving the business unit goals.

Q WHY IS THE CONTINGENT NATURE OF THE PAYMENT AN IMPORTANT CONSIDERATION IN THE RATE SETTING PROCESS?

A PEF is assuming that all goals and objectives will be met, and it will make the payments. By definition, a contingent payment is one that may not be required. Incentive compensation by definition is not guaranteed. As such, the inclusion of 100% of the potential incentive compensation dollars simply provides a fund that management may choose to use to boost earnings.

Q DOES THE CONTINGENT NATURE OF THE PAYMENT ALSO JUSTIFY A DISALLOWANCE?

A Yes. Because the payment is contingent, it is not known and measurable. As a general rule, unless an expense is subject known or measurable it should not be allowed. In this case, the total level of payment cannot be known until after the end of the performance period for which any payment is to be made.

Q HOW DO YOU RECOMMEND THAT THE INCENTIVE COMPENSATION FOR SENIOR EXECUTIVE MANAGEMENT BE TREATED FOR RATEMAKING PURPOSES?

A All of the compensation paid to executives under the EIP and the Performance Sub-Share Plan should be excluded from the calculation of operating expenses and rates. All of that compensation is predicated upon the earnings of the parent company, Progress, and not tied to the results of the operating company, PEF. Therefore, none of these costs should be borne by ratepayers. This results in a disallowance of $2.6 million.

Q HOW DO YOU RECOMMEND THAT THE INCENTIVE COMPENSATION FOR OTHER MANAGEMENT AND NON-MANAGEMENT EMPLOYEES BE TREATED FOR RATEMAKING PURPOSES?

A I recommend that 50% of the total incentive compensation for management and non-management employees in the amount of $15.6 million be removed from labor expense. Incentive compensation under the MICP is based on a combination of the EPS of Progress and upon "legal entity" (which appears to be a reference to the operating company for which the employee works) EBITDA. (*PEF Response to OPC Request to Produce No. 116*). Each of these items benefits shareholders. Similarly, 50% of any award under the ECIP is based upon Progress achieving a minimum EPS level. Absent Progress achieving that minimum level, a payout under the ECIP would be 50% or more lower than the target maximum award level. To the extent that the reward is for enhancing shareholder returns, the payment is much more in the nature of a profit sharing between shareholders and management. To the extent that employees are being paid for enhancing value to shareholders, it is shareholders that should bear the overall responsibility of such costs.

Q IS THERE ANY PRECEDENT FOR EXCLUDING A PORTION OF INCENTIVE COMPENSATION WHEN SETTING RATES?

A Yes. The Public Utility Commission of Texas (PUCT) has disallowed the portion of incentive compensation tied to corporate financial objectives. (*See*, Application of AEP Texas Central Company for Authority to Change Rates, PUCT Docket No. 28840, *Final Order* issued August 15, 2005 at paragraphs 164-170.) Specifically, in the AEP Central case, the PUCT permitted inclusion of the incentive compensation to the extent that it was tied to operational factors. To the extent the compensation was the result of financial measures, the payment was viewed as beneficial to shareholders and not ratepayers. In permitting some recovery of incentive compensation, the PUCT concluded:

> The financial measures are of more immediate benefit to shareholders, and the operating measures are of more immediate benefit to ratepayers.
>
> Incentives to achieve operational measures are necessary and reasonable to provide T&D utility services, but those to achieve financial measures are not. (*Id. at 169-170)*

Likewise, the Wyoming Public Service Commission in an Application of PacifiCorp for a retail increase chose to disallow 50% of incentive compensation because business unit and corporate incentives are primarily for the benefit of shareholders. (*In the Matter of the Application of PacifiCorp. for a Retail Electric Utility Rate Increase of $41.8 Million per Year*, 232 P.U.R. 4th at 295 (2004).

Q **HAS THIS COMMISSION RECENTLY ADDRESSED THE ISSUE OF INCENTIVE COMPENSATION THAT MAY BE INCLUDED IN THE CALCULATION OF RATES?**

A Yes. In the recent Tampa Electric Company (TECO) rate case, the Commission excluded from incentive compensation that portion of incentive compensation for senior officers that is related to TECO's parent company's earnings, stating:

> We also find, however, that the incentive compensation should be directly tied to the results of TECO and not to the diversified interest of its parent Company TECO Energy. (*In re: Tampa Electric Company*, FPSC Order No. PSC-09-0283-FOF-EI at 58).

In the case of PEF, a large portion of incentive compensation for all levels of employment is tied directly to the earnings of the parent company, Progress. and not the results of PEF or upon measures that benefit ratepayers of PEF.

Q **IN CONCLUSION, WHAT IS AN APPROPRIATE DISALLOWANCE FOR INCENTIVE COMPENSATION FOR EXCLUSION FROM OPERATING EXPENSES?**

A All of the incentive compensation included in the test year for executive management and one half of the incentive compensation for other management and non-management employees should be excluded from the calculation of the rates in this proceeding, resulting in a total reduction of $18.25 million to incentive compensation shown on MFR Schedule C-35.

4. STORM RESERVE ACCRUAL

Background

Q WHAT IS A STORM RESERVE?

A Under Rule 25-6.0143, Florida Administrative Code, electric utilities are allowed to establish a "separate subaccount . . . that portion of Account No. 228.1, which is designated to cover storm-related damages to the utility's own property or property leased from others that is not covered by insurance." (*Direct Testimony of Company witness Peter Toomey*, at 25).

Q WHAT IS THE CURRENT STORM RESERVE LEVEL?

A The balance in the reserve is approximately $133 million. This takes into account Tropical Storm Fay expenses of approximately $10 million, which had not been charged to the storm reserve as of last March.

Q HOW DID YOU CALCULATE THAT AMOUNT?

A PEF Response to OPC Interrogatory 153 shows a reserve of $140 million as of March 2009 without any reduction for Tropical Storm Fay. PEF's Responses to OPC Interrogatory 109 and 355 indicate that amounts for Tropical Storm Fay of approximately $10 million had not yet been charged to the storm reserve. Reducing the March 31 balance by the $10 million and adding $460,000 per month produces a balance of approximately $133 million as of July 31, 2009.

Q **HOW IS THE STORM RESERVE FUNDED?**

A It has been funded by ratepayer contributions through the agreed upon continuation of a surcharge designed to recover the costs of the 2004 hurricane season (*Order No. PSC-06-0772-PAA-EI, Docket No. 041712-EI* September 18, 2006) and through ratepayer contributions that the Commission authorizes in setting base rates. Ratepayers currently contribute $6 million per year to the storm reserve.

Q **DOES THE COMMISSION HAVE A FRAMEWORK FOR STORM RESTORATION COST RECOVERY?**

A Yes. According to the recent order in the TECO rate case, the following is the framework in which the Commission addresses the storm restoration cost issue:

> We have established a regulatory framework consisting of three major components: (1) an annual storm accrual, adjusted over time as circumstances change; (2) a storm reserve adequate to accommodate most, but not all storm years; and, (3) a provision for utilities to seek recovery of costs that go beyond the storm reserve. (*In re Tampa Electric Company*, FPSC Order No. PSC-09-0283-FOF-EI at 17).

Q **WHO ULTIMATELY ASSUMES THE RISK OF LOSS FROM STORM DAMAGE UNDER THE EXISTNG COMMISSION FRAMEWORK?**

A PEF's customers ultimately bear all of the risk of losses due to hurricanes and other storms:

> . . . under the current approach to the recovery of storm restoration costs, the risk associated with a lower reserve level (i.e., the possibility of storm restoration costs exceeding the Reserve, leading to subsequent customer charges) and the risk associated with a higher reserve level (i.e., paying charges now for storm restoration costs that do not materialize) is completely

> borne by FPL's customers. The customers represented in this proceeding have made clear that they would rather pay to fund the Reserve to a lower level now and risk future rate volatility than pay to fund the Reserve to a higher level before future storm restoration costs have been incurred. (*In re Florida Power & Light Company*, FPSC Order No. PSC-06-0464-FOF-EI, *at paragraph* 57).

As such, PEF is at little or no risk for recovering storm restoration costs regardless of the amount in the storm reserve. Put simply, from a ratepayer perspective, the question is when to pay for the cost of restoration -- before or after the damage occurs.

PEF Proposal

Q IS PEF PROPOSING AN INCREASE IN THE ANNUAL ACCRUALS FOR ITS STORM RESERVE?

A Yes. PEF is proposing a $10 million increase in annual contributions. This would raise the current annual accrual from $6 million to $16 million per year. This is a significant increase given that PEF currently has a $133 million storm reserve.

Q HAS PEF SOUGHT TO ESTABLISH A TARGET RESERVE BALANCE?

A No. It appears that PEF is proposing to accrue dollars for the storm reserve in perpetuity.

Q SHOULD PEF'S PROPOSED $10 MILLION ANNUAL INCREASE IN STORM RESERVE ACCRUALS BE APPROVED?

A No. PEF has not supported a $10 million increase. Further, since the current $133 million storm reserve is sufficient to cover all but the most severe storms, all contributions to the storm reserve should cease.

Q WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A Under the Commission's framework, the storm reserve accrual and reserve balance are designed to provide coverage for some, but not all storms. However, the Hurricane Loss and Reserve Performance Analyses (Study) presented by PEF witness Harris takes into account all manner and strength of storms. (*Direct Testimony of Steven P. Harris,* Exhibit __ (SPH-1)). In other words, it assumes that the storm reserve should be adequate to cover damage from all storms. Thus, the current $133 million reserve balance covers all Category 1 hurricanes and most, but not the most destructive, Category 2 storms. Thus, it is sufficient to cover eight consecutive years in which the expected annual loss (EAL) chargeable to the storm reserve occurs.

Q WHY IS PEF SEEKING A $10 MILLION INCREASE IN STORM DAMAGE ACCRUALS?

A The proposed increase is based on the "expected, average annual recoverable storm loss" derived in the Study (*Direct Testimony of Peter Toomey* at 25). Specifically, PEF witness Toomey concludes that the additional $10 million annual accrual will produce a mean reserve balance of $152 million at the end of five years. (*Id.*)

Q DO THE STUDY AND THE TESTIMONY OF PEF WITNESS HARRIS EXPLICITLY SUPPORT AN INCREASE IN THE ANNUAL CONTRIBUTIONS?

A No. PEF witness Harris, the sponsor of the Study, stated in his testimony that PEF asked that he review its storm loss exposure and reserve performance and assess the impact of four varying accrual levels on the reserve performance. Those accrual levels are $6 million, $16 million, $25 million and $35 million. Further, Mr. Harris specifically states that his role

> ....was not to recommend an annual level of accrual or target reserve level. Rather, I presented probabilities to PEF regarding reserve performance based on various levels of annual accrual. (*Direct Testimony of Steven P. Harris* at 9).

Q WHAT TYPE OF STORMS ARE INCLUDED IN THE STUDY PRESENTED BY MR. HARRIS?

A Mr. Harris quantifies the EAL using a long-term (100 year) analysis of storm damage. His analysis includes all storms, including the most severe storm to affect PEF's service territory, the 1921 Category 3 hurricane that made landfall in Pinellas County. The EAL for all levels of storms is approximately $20 million per year, with a $16.4 million average expected charge to the reserve. (*Id.* at 6). Over the last three years, PEF has charged less than $13 million (in total) to the reserve, as shown in Exhibit MJM-5. This equates to a three-year average of $4.3 million.

Q WHAT IS THE LIKELIHOOD THAT PEF WOULD INCUR DAMAGE IN EXCESS OF THE CURRENT $133 MILLION RESERVE BALANCE?

A Table 3-1 of Exhibit No. __ (SPH-1) in the Study provides Aggregate Damage

Excedance Probabilities for various damage levels up to and in excess of $310 million. According to the Study, there is a 3.3% probability that there will be damage in any one year that exceeds the current reserve level of $133 million. In other words, a storm inflicting damage in an amount of approximately $130 million is likely to occur once every 33 years.

Q **WHAT RESULTS DOES THE STUDY SHOW FOR CATEGORY 1 AND 2 HURRICANES?**

A The most destructive Category 1 storm would cause damage of slightly less than $50 million (*Id.,* Exhibit No._ (SPH-1) at 19). The damage from the most costly Category 2 storm would cause damage of slightly in excess of $140 million and require an additional $10 million to cover the estimated costs to restore service.

Q **IS IT NECESSARY TO SET THE STORM RESERVE ACCRUAL TO COVER THE COSTS OF ALL TROPICAL STORMS OR HURRICANES REGARDLESS OF THE LEVEL OF SUCH STORM?**

A No. The storm reserve and associated accrual are only part of the framework for recovering storm restoration costs. The Commission has demonstrated its ability and willingness to promptly consider and act upon a utility request to recover storm costs. As such, the storm reserve need not cover all storms. To do so would impose an unnecessary added burden on ratepayers.

Rather, what is needed is a reasonable accrual and a reasonable reserve designed to cover the expected damage from the more common (but not all) storm events. In this instance, PEF is seeking to establish the reserve at a level designed to provide for coverage for all storms damage. Such a "worst case" approach is only necessary if the storm reserve and associated accrual are the only means by which a utility is able to obtain coverage for damages from storms.

Q **HOW ARE RATEPAYERS AFFECTED BY THE PROPOSED $10 MILLION PER YEAR INCREASE IN CONTRIBUTIONS TO THE STORM RESERVE?**

A Ratepayers will see higher rates.

Q **DO RATEPAYERS BENEFIT FROM HIGHER CONTRIBUTIONS TO FUND THE RESERVE?**

A No. As explained above, the current $6 million contribution and the current storm reserve of $133 million are more than sufficient to cover all but the most severe storms. In contrast, the increase will benefit PEF by increasing its cash flow. Finally, the risk of non-recovery for storm damage restoration costs will remain with ratepayers, so that if a catastrophic storm or storms strike PEF's service territory, ratepayers will be surcharged in an amount to permit PEF to recover the costs of service restoration in excess of the storm reserve amount.

Q **DOES PEF EXPLAIN HOW AN INCREASE IN THE ACCRUAL WILL BENEFIT RATEPAYERS?**

A No. The only explanation provided by PEF Witness Harris suggests that the $16 million accrual may provide for rate stability. However, given the current reserve balance and recent history, it is not necessary to raise rates to achieve rate stability.

Q **IS AN INCREASE IN THE RESERVE NECESSARY TO MAINTAIN THE STATUS QUO?**

A No. The current reserve balance is sufficient to cover all Category 1 hurricanes (at current levels, even two such hurricanes in one year), as well as all but the most severe Category 2 hurricanes. In fact, at the EAL chargeable to the reserve each year, the reserve balance is sufficient to provide coverage for eight years. Thus, it is not necessary to continue the current funding level.

Q **WHAT IS THE IMPACT ON THE STORM RESERVE IF ACCRUALS ARE STOPPED?**

A Over time, the level of the reserve will decline. However, absent a direct strike in the most populated portion of PEF's service territory, or the once in every 33-year storm occurrence causing over $130 million in damage, the current reserve balance is sufficient to cover the EAL for the next eight years. If losses remain at the levels experienced over the 2006-2008 period, the current reserve is more than capable of supporting storm recovery for 30 years, without any further ratepayer contributions.

Q **SHOULD THE COMPANY REVISE ITS STORM RESERVE ANALYSIS IN THE NEXT RATE CASE?**

A Yes. Since the present analysis addresses all manner of storms up to and including the most severe and damaging storms, the Commission should require that in any subsequent study presented, alternative levels of storm damage are considered. I am suggesting that any subsequent study should look at the reserve performance taking into account only Category 1 storms and also potentially Category 2 storms. This approach gives recognition to the framework for addressing storm restoration costs – that being that the accrual and reserve balance is designed to cover most but not the most destructive storms.

Q PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A The storm reserve accrual should be suspended as of the effective date of any new rates approved in this proceeding. The current reserve balance is sufficient to provide for coverage of the EAL and also provides coverage for all Category 1 storms. A revised study should be submitted when PEF next files a rate increase, or seeks to re-institute the storm reserve accrual and collection that shows what an appropriate reserve target is assuming coverage of most (Category 1 and 2 storms) instead of all level of storms.

Q DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes, it does.

APPENDIX A

Qualifications of Martin J. Marz

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Martin J. Marz; J. Pollock, Incorporated, 1525 Lakeville Drive, Kingwood, Texas 77339.

Q. WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am an Energy Advisor and Senior Consultant for J. Pollock, Incorporated.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I have a Bachelor of Arts degree in Political Science from the University of Akron, and a *Juris Doctor* from the University of Akron School of Law.

I have been involved in the energy industry since 1980, and have been involved in many major regulatory changes that have occurred in the natural gas and power industry, beginning with Order No. 436 and its progeny and extending through Order No. 636 as well as matters impacting the electric industry, from Order 888 and the California Energy crisis in 2000-2001. Before joining J. Pollock Inc. in July 2007, I was employed by BP in Houston, Texas, where I worked for the natural gas and power trading and marketing operations as Senior Attorney, as a Trade Regulation Manager (compliance) and as a Director of State Regulatory Affairs. While with BP, I was involved in all or part of the following:

- The California and Pacific Northwest energy complaint proceedings dealing with the price spike in electric prices in 2000-2001, Docket EL00-95;

- Transcontinental Gas Pipeline Rate Proceeding (incremental rates and development of a pooling pint at Mobile Bay);
- FERC market and market behavior investigations, including the wash trading matters (FERC and Texas), price spikes in Texas in 2003 and Northeast in late 2003;
- Presentation before the FERC addressing Price Reporting and Market Transparency issues, 2004;
- California gas regulatory matters;
- Obtaining licenses for BP Energy to sell power at retail in Texas, Illinois, New Jersey and California;
- Cogeneration contract negotiations where BP Energy would be both the supplier of natural gas and the purchaser of power off take;
- Obtaining and maintaining market based rate authority;
- Producer issues, and contracts;
- ISDA, EEI and natural gas contract negotiations;
- Cross border transactions (U.S. Canada);
- Training on regulatory issues;
- Development execution of state regulatory policy in the gas and power arena.

Prior to BP my work experience included the following:

- State regulatory matters on behalf of a local distribution company;
- International arbitration involving an international purchase and sales agreement tied to the Pre-Build portion of the ANGST;
- Contract matters in gas and power sales and purchase agreements;
- Development, filing and handling pipeline rate matters, including a major pipeline 636 filing and settlement, Purchase Gas Adjustment proceedings (Columbia Gas Transmission Fraud and Abuse proceedings), take-or-pay recovery filings, Florida Gas Pipeline Phase III filing, incremental rate proceedings, rate design cases at the FERC, and transmission equalization proceeding at the FERC;

- State regulatory matters, including electric fuel recovery proceedings, investigation into the reasonableness of captive coal operations, electric rate cases, including cost of service, rate of return and rate design, local gas distribution company rate matters, both for the LDC and the consumer interests, purchase gas adjustment or gas cost recovery filings.

In my capacity as a lawyer, I was responsible for and engaged in pipeline and electric rate proceedings and certificate proceedings at the state and federal level; the development of policy and positions and regulatory strategy; and the negotiation of power and gas purchase and sales contracts, including financial agreements and producer agreements on behalf of marketers, producers, pipelines, local distribution companies, a state public utility commission and a consumer advocate's office. Separately, I was involved in contract negotiations and drafting on behalf of energy marketers, pipelines and distribution companies.

Most recently I have testified at the Florida Public Service Commission, and I was a presenter at two FERC conferences, *Price Discovery in Natural Gas Markets*, Docket PL03-3-005 June 25, 2005 and *Enhanced Reporting of Natural Gas Storage Inventory Information* AD04-10-000, September 8, 2004.

Q. PLEASE DESCRIBE J. POLLOCK, INCORPORATED.

A J. Pollock assists clients to procure and manage energy in both regulated and competitive markets. The J. Pollock team also advises clients on energy and regulatory issues. Our clients include commercial, industrial and institutional energy consumers. Currently, J. Pollock has offices in St. Louis, Missouri and Austin and Houston, Texas.

PROGRESS ENERGY FLORIDA
Actual and Budgeted Overhead Lines Maintenance Expense
(Dollar Amounts in $000)

			Actual Expenses			Budgeted Expenses		Average	2010 Percent Increase to	
Line	Account	Maintenance Description	2006	2007	2008	2009	2010	2006 - 2009	2009	Average
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	571	Overhead Lines - Transmission	$7,072	$7,041	$6,932	$8,056	$11,810	$7,275	46.60%	62.33%
2	593	Overhead Lines - Distribution	$31,190	$30,541	$29,818	$31,852	$45,838	$30,850	43.91%	48.58%

Source: MFR Schedule C-6

PROGRESS ENERGY FLORIDA

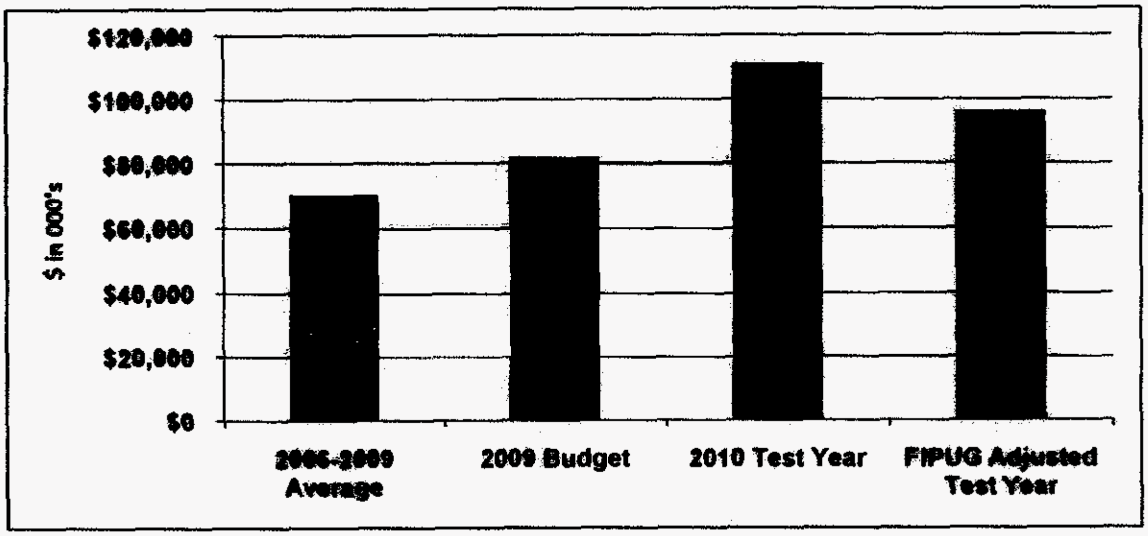
Production Maintenance Expense - Actual vs. Projected

(Dollar Amounts in $000's)

Line	Description	Actual Expenses 2006	Actual Expenses 2007	Actual Expenses 2008	Budgeted Expenses 2009	Budgeted Expenses 2010	Average 2006 - 2009	2010 Percent Increase to 2009	2010 Percent Increase to Average
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Steam Generation	$40,978	$46,034	$42,104	$48,772	$58,819	$44,472	20.60%	32.26%
2	Nuclear Generation	$31,306	$34,076	$32,943	$37,966	$38,009	$34,073	0.11%	11.55%
3	Other Generation	$15,509	$21,575	$34,246	$33,068	$52,311	$26,100	58.19%	100.43%
4	**Total Generation**	$87,793	$101,685	$109,293	$119,806	$149,139	$104,644	24.48%	42.52%
5	**Steam and Other Generation**	$56,487	$67,609	$76,350	$81,840	$111,130	$70,572	35.79%	57.47%

Source: MFR Schedule C-6

PROGRESS ENERGY FLORIDA
Steam and Other Generation Maintenance Expense
Recommended Test Year Level
(Dollar Amounts in $000's)



Line	Steam and Other Generation Maintenance	Amount
1	2006-2009 Average	$70,572
2	2009 Budget	$81,840
3	2010 Test Year	$111,130
4	Recommended Adjustment	$15,000
5	FIPUG Adjusted Test Year	$96,130

Docket No. 090079-EI
Incentive Compensation
Exhibit MJM-4

PROGRESS ENERGY FLORIDA

Incentive Compensation Adjustment

Line	Item	Amount
		(1)
1	Total Incentive Compensation from Schedule MFR C-35	$33,886,020
2	Minus Senior Executive Compensation*	$2,619,190
3	Incentive Compensaton Management / Non-Management Employees	$31,266,830
4	50% of Management/Non-Management Incentive Compensation	$15,633,415
5	Disallowance (Line 2 + Line 4)	$18,252,605

* From Response to OPC Interrogatory 39b Confidential. Note the cited amount is not confidential.

PROGRESS ENERGY FLORIDA

Storm Damage Charges to Storm Reserve - 2006 to Present

Line	Year	Storm	Amount Charged to Reserve ($000)
	(1)	(2)	(3)
1	2006	Alberto	$1,025
2	2006	Ernesto	$1,008
3	2007	Tornado	$1,055
4	2008	Fay	$9,870
5	**Total**		$12,958
6	**Annual Average**		$4,319

Source: PEF Response to OPC Interrogatory Set 3 No. 109

Docket No. 090079-EI
Test Year Maintenance Expense
Exhibit MJM-1

PROGRESS ENERGY FLORIDA

Actual and Budgeted Overhead Lines Maintenance Expense

(Dollar Amounts in $000)

			Actual Expenses			Budgeted Expenses		Average	2010 Percent Increase to	
Line	Account	Maintenance Description	2006	2007	2008	2009	2010	2006 - 2009	2009	Average
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	571	Overhead Lines - Transmission	$7,072	$7,041	$6,932	$8,056	$11,810	$7,275	46.60%	62.33%
2	593	Overhead Lines - Distribution	$31,190	$30,541	$29,818	$31,852	$45,838	$30,850	43.91%	48.58%

Source: MFR Schedule C-6

Docket No. 090079-EI
Test Year Maintenance Expense
Exhibit MJM-2

PROGRESS ENERGY FLORIDA

Production Maintenance Expense - Actual vs. Projected

(Dollar Amounts in $000's)

		Actual Expenses			Budgeted Expenses		Average	2010 Percent Increase to	
Line	Description	2006	2007	2008	2009	2010	2006 - 2009	2009	Average
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Steam Generation	$40,978	$46,034	$42,104	$48,772	$58,819	$44,472	20.60%	32.26%
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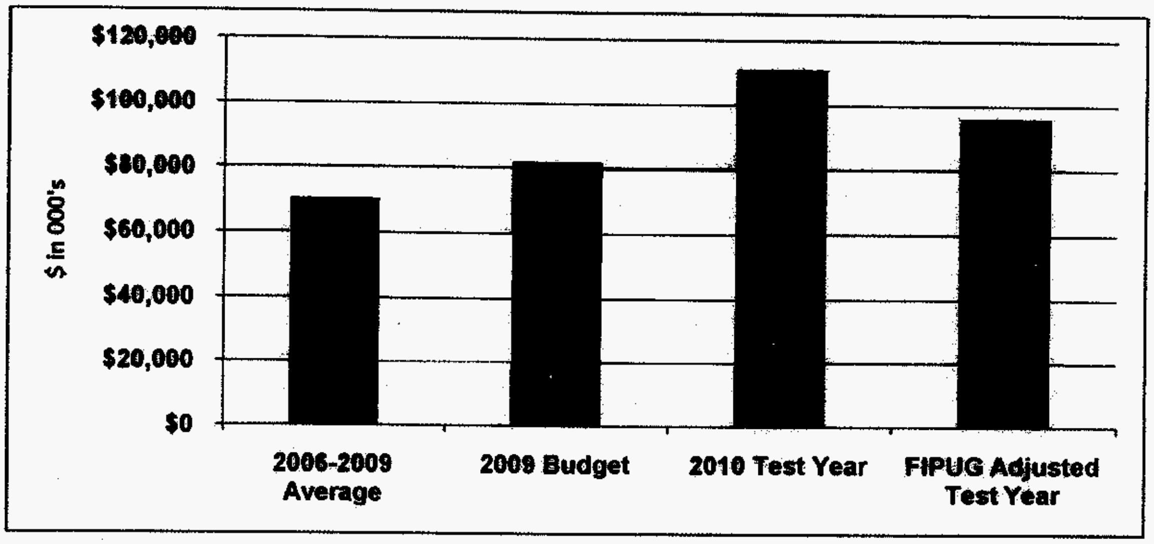
Source: MFR Schedule C-6

PROGRESS ENERGY FLORIDA

Steam and Other Generation Maintenance Expense
Recommended Test Year Level
(Dollar Amounts in $000's)



Line	Steam and Other Generation Maintenance	Amount
1	2006-2009 Average	$70,572
2	2009 Budget	$81,840
3	2010 Test Year	$111,130
4	Recommended Adjustment	$15,000
5	FIPUG Adjusted Test Year	$96,130

PROGRESS ENERGY FLORIDA
Incentive Compensation Adjustment

Line	Item	Amount
		(1)
1	Total Incentive Compensation from Schedule MFR C-35	$33,886,020
2	Minus Senior Executive Compensation*	$2,619,190
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PROGRESS ENERGY FLORIDA

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2	2006	Ernesto	$1,008
3	2007	Tornado	$1,055
4	2008	Fay	$9,870
5	**Total**		$12,958
6	**Annual Average**		$4,319

Source: PEF Response to OPC Interrogatory Set 3 No. 109

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Florida Industrial Power Users Group's Testimony and Exhibit of Martin J. Marz has been served by First Class United States Mail this 10th day of August, 2009, to the following:

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